

The California Commission on Health and Safety and Workers' Compensation



Selected Indicators in Workers' Compensation: A Report Card for Californians

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TABLE OF CONTENTS

INTRODUCTION..... 1

WORKERS' COMPENSATION PREMIUMS..... 2

PURE PREMIUM ADVISORY RATES..... 2

 Minimum Rate Law and Open Rating 2

 Advisory Workers' Compensation Pure Premium Rates: A History Since the 1993 Reform Legislation 3

 Graphic: Recommended v. Approved Advisory Workers' Compensation Rates 8

CALIFORNIA WORKERS' COMPENSATION RATE CHANGES..... 8

 Graphic: California Workers' Compensation Insurance Carrier Rate Filing Changes in 2005 9

 Graphic: California Workers' Compensation Insurance Carrier Rate Filing Changes effective January 1, 2007 10

WORKERS' COMPENSATION EARNED PREMIUM 10

 Graphic: Workers' Compensation Total Earned Premium..... 11

 Workers' Compensation Written Premium..... 11

 Graphic: Workers' Compensation Written Premium (in Billion\$) 12

 California WC Premium Deductibles 12

 Graphic: California WC Premium Deductibles 12

 Graphic: California WC Deductibles as percent of Written Premium 13

CALIFORNIA WORKERS' COMPENSATION INSURANCE INDUSTRY 14

 Workers' Compensation Insurer Expenses..... 14

 Combined Loss and Expense Ratios 14

 Graphic: Combined Loss and Expense Ratios 14

 Insurance Companies' Reserves 14

 Average Claim Costs 15

 Graphic: Estimated Total Loss per Indemnity Claim 1993 - 2005 15

 Current State of the Insurance Industry 15

 Market Share 15

 Graphic: California WC Market Share by Type of Insurer 16

 Insurance Market Insolvency 16

 Listing: Insurers Liquidated since 2000 17

COSTS OF WORKERS' COMPENSATION IN CALIFORNIA..... 19

 Costs Paid by Insured Employers 19

 Workers' Compensation Average Premium Rate 19

 Graphic: Average California Workers' Compensation Premium Rate Per \$100 of Payroll 19

 Workers Covered by Workers' Compensation Insurance 19

 Graphic: Workers Covered by WC Insurance 19

 Average Premium per Covered Worker 20

 Graphic: Workers' Compensation Earned Premium..... 20

WORKERS' COMPENSATION SYSTEM EXPENDITURES..... 21

 Indemnity Benefits 21

 Table: System-wide Estimated Costs of Paid Indemnity Benefits 21

 Trends in Paid Indemnity Benefits 22

 Graphic: Paid Indemnity Benefits 22

 Graphic: Distribution of Paid Indemnity Benefits 22

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Medical Benefits	23
<i>Table:</i> System-wide Costs – Medical Benefits	23
Trends in Paid Medical Benefits	24
<i>Graphic:</i> Paid Medical Benefits	24
<i>Graphic:</i> Distribution of Paid Medical Costs	24
Changes in Medical Payments by Type of Provider	25
<i>Graphic:</i> Changes in Medical Cost Paid by Provider Type: 1995-2005 v. 1995-2000 v. 2000-2005.....	25
Average Cost per Claim by Type of Injury	26
<i>Graphic:</i> Average Cost per WC Claim by Type of Injury	26
Changes in Average Medical and Indemnity Costs per Claim by Type of Injury	27
<i>Graphic:</i> Change of Average Medical and Indemnity Costs per Claim by Type of Injury. 1998-2005.....	27
WORKERS' COMPENSATION SYSTEM EXPENDITURES - SELF-INSURED PRIVATE AND PUBLIC EMPLOYERS.....	28
Private Self-Insured Employers	28
<i>Graphic:</i> Number of Employees of Private Self-Insured Employers (In Millions)	28
<i>Graphic:</i> Indemnity Claims per 100 Employees of Private Self-Insured Employers	28
<i>Graphic:</i> Incurred Cost per Indemnity Claim of Private Self-Insured Employers.....	29
<i>Graphic:</i> Incurred Cost per Claim – Indemnity and Medical - Private Self-Insured Employers.....	29
Public Self-Insured Employers.....	30
<i>Graphic:</i> Number of Employees of Public Self-Insured Employers (in Millions)	30
<i>Graphic:</i> Indemnity Claims per 100 Employees of Public Self-Insured Employers.....	30
<i>Graphic:</i> Incurred Cost per Indemnity Claim of Public Self-Insured Employers.....	31
<i>Graphic:</i> Incurred Cost per Claim - Indemnity and Medical - Public Self-Insured Employers.....	31
VOCATIONAL REHABILITATION COSTS.....	32
<i>Table:</i> Vocational Rehabilitation Incurred Costs At First Report Level.....	32
<i>Table:</i> Vocational Rehabilitation Incurred Costs At First/Second Report Levels.....	32
<i>Graphic:</i> Vocational Rehabilitation Benefits Compared with Total Incurred Losses, WCIRB 1 st Report Level (in Millions\$).....	33
<i>Graphic:</i> Voc Rehab Costs as Percent of Total Incurred Losses	33
<i>Graphic:</i> Paid Vocational Rehabilitation (Millions\$)	34
<i>Graphic:</i> Distribution of Paid Vocational Rehabilitation	34
MEDICAL-LEGAL EXPENSES.....	35
Permanent Disability Claims	35
<i>Graphic:</i> PPD Claims at Insured Employers	35
Medical-Legal Examinations per Claim.....	36
<i>Graphic:</i> Medical-Legal Exams Per WC Claim	36
<i>Graphic:</i> Average Medical-legal Reports Per Claim by Region	37
Cost per Medical-Legal Examination	37
<i>Graphic:</i> Average Cost of Medical-Legal Exam.....	37
<i>Graphic:</i> Average Cost of Medical-Legal Exam by Region.....	38
<i>Graphic:</i> Distribution of Medical-Legal Exam by Type (Southern California)	39
<i>Graphic:</i> Distribution of Medical-Legal Exam by Type (California)	39
<i>Graphic:</i> Average Number of Psychiatric Exams per PPD Claim by Region	40
Medical-Legal Cost Calculation	40
Medical-Legal Costs	40
<i>Graphic:</i> Medical-Legal Costs on PPD Claim at Insured Employers.....	41
Sources of Improvement in Medical-Legal Costs	41
<i>Graphic:</i> Sources of Savings. Medical-Legal Costs on PPD Claims 1990-2002.....	41
INJURIES AND ILLNESSES.....	42
OCCUPATIONAL INJURIES, ILLNESSES AND FATALITIES	42
PUBLIC AND PRIVATE SECTORS.....	43
Non-Fatal Occupational Injuries and Illnesses.....	43

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

<i>Graphic: California Non-Fatal Occupational Injuries and Illnesses. Private, State and Local</i>	43
Fatal Occupational Injuries and Illnesses.....	43
<i>Graphic: California Fatal Occupational Injuries and Illnesses. Private, State and Local</i>	43
PRIVATE SECTOR	44
Non-Fatal Occupational Injuries and Illnesses.....	44
<i>Graphic: California Non-Fatal Occupational Injuries and Illnesses. Private Industry</i>	44
Fatal Occupational Injuries and Illnesses.....	44
<i>Graphic: California Fatal Occupational Injuries and Illnesses. Private Industry</i>	44
PUBLIC SECTOR – STATE GOVERNMENT	45
Non-Fatal Occupational Injuries and Illnesses.....	45
<i>Graphic: California Non-Fatal Occupational Injuries and Illnesses. State Government</i>	45
Fatal Occupational Injuries and Illnesses.....	45
<i>Graphic: California Fatal Occupational Injuries and Illnesses. State Government</i>	45
PUBLIC SECTOR – LOCAL GOVERNMENT	46
Non-Fatal Occupational Injuries and Illnesses.....	46
<i>Graphic: California Non-Fatal Occupational Injuries and Illnesses. Local Government</i>	46
Fatal Occupational Injuries and Illnesses.....	46
<i>Graphic: California Fatal Occupational Injuries and Illnesses. Local Government</i>	47
OCCUPATIONAL INJURY AND ILLNESS INCIDENCE RATES	47
<i>Graphic: California Occupational Injury and Illness Incidence Rates. Private, State and Local</i>	47
Public and Private Sectors.....	47
Private Sector.....	47
<i>Graphic: California Occupational Injury and Illness Incidence Rates. Private Industry</i>	47
Public Sector – State Government.....	48
<i>Graphic: California Occupational Injury and Illness Incidence Rates. State Government</i>	48
Public Sector – Local Government.....	48
<i>Graphic: California Occupational Injury and Illness Incidence Rates. Local Government</i>	48
US AND CALIFORNIA INCIDENCE RATES. A COMPARISON	49
<i>Graphic: Injury and Illness Incidence Rate per 100 Full-Time Workers. Private Industry – Total Recordable Cases. USA and California</i>	49
<i>Graphic: Injury and Illness Incidence Rate per 100 Full-Time Workers. Private Industry –Cases with Days Away from Work. USA and California</i>	49
CHARACTERISTICS OF OCCUPATIONAL INJURIES AND ILLNESSES	50
<i>Graphic: Incidence Rates by Industry 1995 v 2004</i>	50
<i>Graphic: Private Industry Occupational Groups Median Days Away from Work 2004</i>	50
<i>Graphic: State Government Occupational Groups Median Days Away from Work 2004</i>	51
<i>Graphic: Local Government Occupational Groups Median Days Away from Work 2004</i>	51
CHARACTERISTICS OF FATAL OCCUPATIONAL INJURIES AND ILLNESSES	52
<i>Graphic: Fatal Injuries by Age of Worker - 1995</i>	52
<i>Graphic: Fatal Injuries by Gender - 1995</i>	52
<i>Graphic: Fatal Injuries by Race or Ethnic Origin - 1995</i>	53
<i>Graphic: Fatal Injuries by Event or Exposure - 1995</i>	53
PROFILE OF OCCUPATIONAL INJURIES AND ILLNESSES STATISTICS	54
California and the Nation.....	54
Incidence Rates.....	54
Duration.....	54
Industry Data.....	54
Establishment Size and Type.....	55
Types of Injuries.....	55

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Demographics	56
Occupational Injury and Illness Reporting	56
OSHA Reporting and Recording Requirements	56
BLS Annual Survey of Occupational Injuries and Illnesses	56
OSHA Occupational Injury and Illness Survey	57
OCCUPATIONAL INJURY AND ILLNESS PREVENTION EFFORTS.....	57
Cal/OSHA Program	57
Identification, Consultation and Compliance Programs	57
High Hazard Employer Program	57
High Hazard Consultation Program.....	58
<i>Graphic:</i> High Hazard Consultation Program Production by Year	58
High Hazard Enforcement Program.....	59
<i>Graphic:</i> High Hazard Enforcement Program Inspections and Violations	59
Safety Inspections	60
Health and Safety Standards	60
WORKERS' COMPENSATION SYSTEM PERFORMANCE.....	61
INTRODUCTION.....	61
ADMINISTRATIVE OPERATIONS.....	62
Division of Workers' Compensation Opening Documents	62
<i>Graphic:</i> DWC Opening Documents	62
Mix of DWC Opening Documents	63
<i>Graphic:</i> DWC Opening Documents as Percentage of Total	63
Division of Workers' Compensation Hearings.....	64
Number of Hearings	64
<i>Graphic:</i> DWC Hearings Held	64
Timeliness of Hearings	65
<i>Graphic:</i> Elapsed Time in Days from Request to DWC Hearing	66
Division of Workers' Compensation Decisions	66
DWC Case-Closing Decisions	66
<i>Graphic:</i> DWC Case-Closing Decisions.....	66
Mix of DWC Decisions	67
<i>Graphic:</i> DWC Decisions: Percentage Distribution by Type of Decision	67
Division of Workers' Compensation Lien Decisions	68
<i>Graphic:</i> DWC Decisions on Liens	68
DWC AUDIT AND ENFORCEMENT PROGRAM.....	69
Background	69
AB 749 Changes to the Audit Program.....	69
Audit and Enforcement Unit Data	69
Overview of Audit Methodology	70
Selection of Audit Subjects	70
<i>Graphic:</i> Routine and Targeted Audits.....	70
<i>Graphic:</i> Audits by Type of Audit Subject.....	71
Selection of Files to be Audited	71
<i>Graphic:</i> Audited Files by Method of Selection	72
Audit Findings	72
<i>Graphic:</i> Administrative Penalties Assessed	72
<i>Graphic:</i> Average Number of Penalty Citations per Audit Subject Average Amount per Penalty Citation.....	73
Unpaid Compensation Due to Employees	73
<i>Graphic:</i> Average Claims and Amount of Unpaid Compensation.....	73

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

<i>Graphic:</i> Unpaid Compensation: Type by Percentage of Total	74
Frequency of Violations	74
Unpaid Indemnity	74
Late First Payment of Temporary Disability or First Salary Continuation	75
Late First Payment of Permanent Disability, Vocational Rehabilitation and Death Benefits	75
Late Subsequent Indemnity Payments	75
Failure to Late Provision of AME/QME and Vocational Rehabilitation Notices	75
Performance Ratings.....	76
DISABILITY EVALUATION UNIT.....	77
<i>Graphic:</i> DEU Written Ratings, 2003 - 2005	77
<i>Graphic:</i> DEU Written and Oral Ratings, 2003 - 2005	78
ANTI-FRAUD ACTIVITIES.....	79
Background.....	79
Suspected Fraudulent Claims	79
Workers' Compensation Fraud Suspect Arrests.....	80
Workers' Compensation Fraud Suspect Convictions.....	81
Workers' Compensation Fraud Investigations	82
Types of WC Fraud Investigations.....	82
Trends in WC Fraud Investigations.....	82
<i>Graphic:</i> Percentage of Fraud Investigations by Type.....	83
CARVE-OUTS - ALTERNATIVE WORKERS' COMPENSATION SYSTEMS.....	83
CHSWC Study of Carve-Outs	83
Impact of Senate Bill 228	84
Impact of Senate Bill 899	84
Carve-Out Participation.....	85
Status of Carve-out Agreements as of May 2005.....	85
<i>Table:</i> Construction Industry Carve-out Participants	85
<i>Table:</i> Non-construction Industry Carve-out Participants	87

INTRODUCTION

As part of its mandate to conduct a continuing examination of California's health and safety and workers' compensation systems, the California Commission on Health and Safety and Workers' Compensation (CHSWC) is pleased to present an updated report, "Selected Indicators in Workers' Compensation: A Report Card for Californians," summarizing key information.

This Report Card is a compilation of data from and for the entire workers' compensation community. It is intended to be a reference for monitoring the ongoing system and serve as an empirical basis for proposing improvements.

The Report Card will be continually updated as needed. The online Report Card, available at the CHSWC website, www.dir.ca.gov/chswc, will reflect the latest available information.

This information was compiled by CHSWC from data derived from many sources, including:

- Workers' Compensation Insurance Rating Bureau of California (WCIRB)
- California Workers' Compensation Institute (CWCI)
- National Association of Social Insurance (NASI)
- United States Bureau of Labor Statistics (BLS)
- California Department of Insurance Fraud Division (CDI)
- California Labor and Workforce Development Agency (LWDA)
 - Department of Industrial Relations (DIR)
 - Division of Workers' Compensation (DWC)
 - Division of Labor Statistics and Research (DLSR)
 - DIR Self-Insurance Plans (DIR-SIP)
- CHSWC studies of Permanent Disability by RAND
- CHSWC studies by the University of California at Berkeley (UC Berkeley)

CHSWC would appreciate comments on this Report Card and suggestions for including other data. We wish to provide a useful tool for the community.

CHSWC appreciates the cooperation of the entire California workers' compensation community for their assistance in this and other endeavors.

WORKERS' COMPENSATION PREMIUMS

Pure Premium Advisory Rates

Minimum Rate Law and Open Rating

In 1993, workers' compensation reform legislation repealed California's 80-year-old minimum rate law and replaced it beginning in 1995 with an open-competition system of rate regulation in which insurers set their own rates based on "pure premium advisory rates" developed by the WCIRB. These rates, approved by the Insurance Commissioner (IC) and subject to annual adjustment, are based on historical loss data for more than 500 job categories.

Under this "open rating" system, these recommended, non-mandatory pure premium rates are intended to cover the average costs of benefits and loss-adjustment expenses for all employers in an occupational class and thus provide insurers with benchmarks for pricing their policies. Insurers typically file rates that are intended to cover other costs and expenses, including unallocated loss-adjustment expenses.

The chart on the following pages shows the history of the workers' compensation pure premium advisory rates since the 1993 reforms.

**Advisory Workers' Compensation Pure Premium Rates
A History Since the 1993 Reform Legislation**

Page 1 of 5

1993

Insurance Commissioner approval:

Pure premium rate reduction of 7 percent effective July 16, 1993, due to a statutory mandate.

1994

WCIRB recommendation:

No change in pure premium rates.

Insurance Commissioner approval:

Two pure premium rate decreases: a decrease of 12.7 percent effective January 1, 1994; and a second decrease of 16 percent effective October 1, 1994.

1995

WCIRB recommendation:

A 7.4 percent decrease from the pure premium rates that were in effect on January 1, 1994.

Insurance Commissioner approval:

A total of 18 percent decrease to the premium rates in effect on January 1, 1994, approved effective January 1, 1995 (including the already-approved 16 percent decrease effective October 1, 1994).

1996

WCIRB recommendation:

An 18.7 percent increase in pure premium rates.

Insurance Commissioner approval:

An 11.3 percent increase effective January 1, 1996.

1997

WCIRB recommendation:

A 2.6 percent decrease in pure premium rates.

Insurance Commissioner approval:

A 6.2 percent decrease effective January 1, 1997.

1998

WCIRB recommendation:

The initial recommendation for a 1.4 percent decrease was later amended to a 0.5 percent increase.

Insurance Commissioner approval:

A 2.5 percent decrease effective January 1, 1998.

1999

WCIRB recommendation:

The WCIRB initial recommendation of a 3.6 percent pure premium rate increase for 1999 was later amended to a recommendation for a 5.8 percent increase.

Insurance Commissioner approval:

No change in pure premium rates in 1999.

**Advisory Workers' Compensation Pure Premium Rates
A History since the 1993 Reform Legislation**

Page 2 of 5

2000

WCIRB recommendation:

An 18.4 percent increase in the pure premium rate for 2000.

Insurance Commissioner approval:

An 18.4 percent increase effective January 1, 2000.

2001

WCIRB recommendation:

The WCIRB initial recommendation of a 5.5 percent increase in the pure premium rate later amended to a recommendation for a 10.1 percent increase.

Insurance Commissioner approval:

A 10.1 percent increase effective January 1, 2001.

January 1, 2002

WCIRB Recommendations:

The WCIRB initial recommendation of a 9 percent increase in the pure premium rate was later amended to a recommendation for a 10.2 percent increase effective January 1, 2002.

Insurance Commissioner Approvals:

The Insurance Commissioner approved a 10.2 percent increase effective January 1, 2002. .

April 1, 2002

WCIRB Recommendations:

On January 16, 2002, the WCIRB submitted recommended changes to the California Workers' Compensation Uniform Statistical Reporting Plan – 1995, effective March 1, 2002 and the California Workers' Compensation Experience Rating Plan – 1995, effective April 1, 2002, related to insolvent insurers and losses associated with the September 11, 2001 terrorist actions. No increase in advisory premium rates was proposed.

Insurance Commissioner Approvals:

The Insurance Commissioner approved the WCIRB's requests effective April 1, 2002. .

July 1, 2002

WCIRB Recommendations:

WCIRB filed a mid-term recommendation that pure premium rates be increased by 10.1 percent effective July 1, 2002, for new and renewal policies with anniversary rating dates on or after July 1, 2002.

Insurance Commissioner Approvals:

On May 20, 2002, the Insurance Commissioner approved a mid-term increase of 10.1 percent effective July 1, 2002.

January 1, 2003

WCIRB recommendation:

On July 31, 2002, the WCIRB proposed an average increase in pure premium rates of 11.9% for 2003.

On September 16, 2002, the WCIRB amended the proposed 2003 pure premium rates submitted to the California Department of Insurance (CDI). Based on updated loss experience valued as of June 30, 2002, the WCIRB is proposing an average increase of 13.4% in pure premium rates to be effective on January 1, 2003 and later policies.

**Advisory Workers' Compensation Pure Premium Rates
A History since the 1993 Reform Legislation**

Page 3 of 5

January 1, 2003

Insurance Commissioner Approval:

On October 18, 2002, the Insurance Commissioner approved a 10.5% increase in pure premium rates applicable to policies with anniversary rating dates in 2003. This increase takes into account the increases in workers' compensation benefits enacted by AB 749 for 2003.

July 1, 2003

WCIRB recommendation:

WCIRB filed a mid-term recommendation on April 2, 2003, that pure premium rates be increased by 10.6 percent effective July 1, 2003, for policies with anniversary dates on or after July 1, 2003.

Insurance Commissioner Approval:

The Insurance Commissioner approved a 7.2 percent increase in pure premium rates applicable to new and renewal policies with anniversary rating dates on or after July 1, 2003.

January 1, 2004

WCIRB Recommendations:

On July 30, 2003, WCIRB proposed an average increase in advisory pure premium rates of 12.0 percent to be effective on January 1, 2004, for new and renewal policies with anniversary rating dates on or after January 1, 2004.

The original WCIRB filing of an average increase of 12 percent on July 30, 2003, was later amended on September 29, 2003, to an average decrease of 2.9 percent to reflect the WCIRB's initial evaluation of AB 227 and SB 228.

In an amended filing made on November 3, 2003, the WCIRB recommended that pure premium rates be reduced, on average, from 2.9 percent to 5.3 percent.

Insurance Commissioner Approvals:

On November 7, 2003, the Insurance Commissioner approved a 14.9% decrease in advisory pure premium rates applicable to new and renewal policies with anniversary rating dates on or after January 1, 2004.

July 1, 2004

WCIRB Recommendations:

On May 13, 2004, WCIRB proposed advisory pure premium rates that are a 2.9 percent decrease from the January 1, 2004, approved pure premium rates. These rates reflect the WCIRB's analysis of the impact of provisions of SB 899 on advisory pure premium rates.

Insurance Commissioner Approvals:

In a decision issued May 28, 2004, the Insurance Commissioner approved a 7.0 percent decrease in pure premium rates, effective July 1, 2004, with respect to new and renewal policies, reflecting as compared to the approved January 1, 2004, pure premium rates.

January 1, 2005

WCIRB Recommendations:

On July 28, 2004, the WCIRB proposed advisory premium rates applicable to new and renewal policies with anniversary rating dates on or after January 1, 2005, that are, on average, 3.5 percent greater than the July 1, 2004, advisory pure premium rates approved by the Insurance Commissioner.

Insurance Commissioner Approvals

In a decision issued November 17, 2004, the Insurance Commissioner approved a total 2.2 percent decrease in advisory pure premium rates applicable to new and renewal policies with anniversary rating dates on or after January 1, 2005.

**Advisory Workers' Compensation Pure Premium Rates
A History since the 1993 Reform Legislation**

Page 4 of 5

July 1, 2005

WCIRB Recommendations:

On March 25, 2005, WCIRB submitted a filing to the California Insurance Commissioner recommending a 10.4 percent decrease in advisory pure premium rates effective July 1, 2005, on new and renewal policies.

On May 19, 2005, in recognition of the cost impact of the new Permanent Disability Rating Schedule adopted pursuant to SB 899, the WCIRB amended its recommendation. In lieu of the 10.4 percent reduction originally proposed in March, the WCIRB recommended a 13.8 percent reduction in pure premium rates effective July 1, 2005. In addition, the WCIRB recommended a 3.8 percent reduction in the pure premium rates effective July 1, 2005, with respect to the outstanding portion of policies incepting January 1, 2005, through June 30, 2005.

Insurance Commissioner Approvals

On May 31, 2005, the Insurance Commissioner approved an 18 percent decrease in advisory pure premium rates effective July 1, 2005, applicable to new and renewal policies with anniversary rating dates on or after July 1, 2005. As a result of the change in pure premium rates, the experience rating eligibility threshold was reduced to \$23,288. The Insurance Commissioner also approved a 7.9 percent decrease in pure premium rates, effective July 1, 2005, applicable to policies that are outstanding as of July 1, 2005. The reduction in pure premium rates applicable to these policies reflects the estimated impact on the cost of benefits of the new Permanent Disability Rating Schedule.

January 1, 2006

WCIRB Recommendations:

On July 28, 2005, the WCIRB submitted to the California Insurance Commissioner a proposed 5.2 percent average decrease in advisory pure premium rates as well as changes to the California Workers' Compensation Uniform Statistical Reporting Plan -1995 and the California Workers' Compensation Experience Rating Plan - 1995.

On September 15, 2005, the WCIRB amended its filing to propose an average 15.9 percent decrease in pure premium rates based on insurer loss experience valued as of June 30, 2005, and a re-evaluation of the cost impact of the January 1, 2005 Permanent Disability Rating Schedule.

Insurance Commissioner Approvals

On November 10, 2005, the Insurance Commissioner approved an average 15.3 percent decrease in advisory pure premium rates effective January 1, 2006, applicable to new and renewal policies with anniversary rating dates on or after January 1, 2006. As a result of the change in pure premium rates, the experience rating eligibility threshold was reduced to \$20,300.

July 1, 2006

WCIRB Recommendations:

On March 24, 2006, the WCIRB submitted a rate filing to the California Department of Insurance recommending a 16.4 percent decrease in advisory pure premium rates to be effective on policies incepting on or after July 1, 2006. The recommended decrease in pure premium rates is based on an analysis of loss experience valued as of December 31, 2005. The WCIRB filing also includes an amendment to the California Workers' Compensation Experience Rating Plan-1995, effective July 1, 2006, to adjust the experience rating eligibility threshold to reflect the proposed change in pure premium rates. A public hearing on the matters contained in the WCIRB's filing was held April 27, 2006.

Insurance Commissioner Approvals

On May 31, 2006, the Insurance Commissioner approved a 16.4 percent decrease in advisory pure premium rates effective July 1, 2006, applicable to new and renewal policies as of the first anniversary rating date of a risk on or after July 1, 2006. In addition, the experience rating eligibility threshold was reduced to \$16,971 to reflect the decrease in pure premium rates.

**Advisory Workers' Compensation Pure Premium Rates
A History since the 1993 Reform Legislation**

Page 5 of 5

January 1, 2007

WCIRB Recommendations:

On October 10, 2006, WCIRB recommended a 6.3% decrease in advisory pure premium rates decrease for California policies incepting January 1, 2007.

Insurance Commissioner Approvals

On November 2, 2006, the Insurance Commissioner approved an average 9.5 percent decrease in advisory pure premium rates effective January 1, 2007, applicable to new and renewal policies with anniversary rating dates on or after January 1, 2007. As a result of the change in pure premium rates, the experience rating eligibility threshold was reduced to \$16,000.

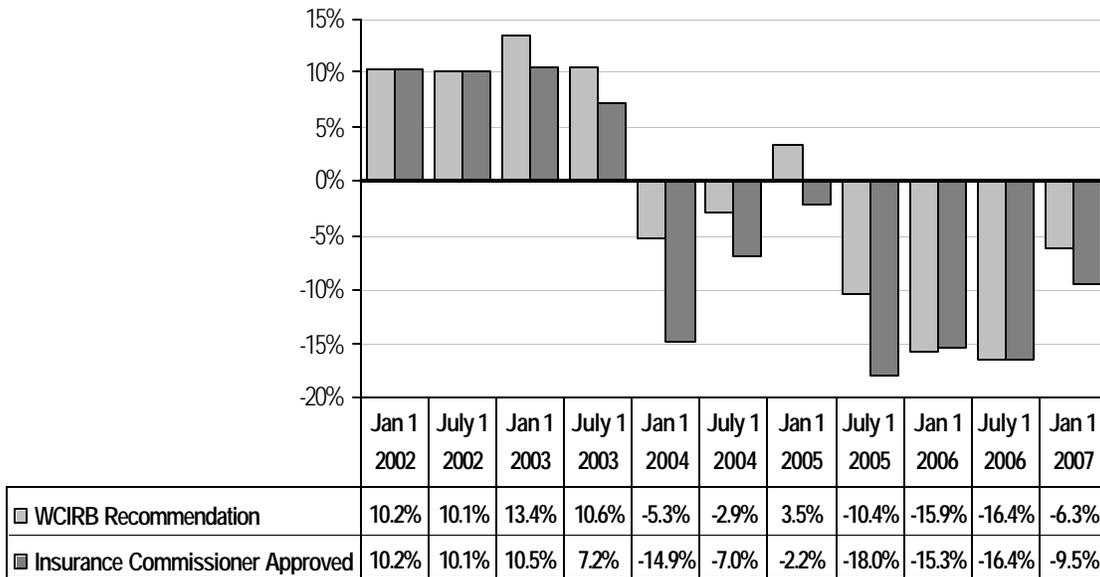
See the WCIRB website below for further details and updates to this information.

http://wcirbonline.org/index2.asp?section=6&subsection=1&content=resources/rate_filings.asp

Recommended vs. Approved Advisory Workers' Compensation Rates

The chart below shows both the WCIRB-recommended and IC-approved changes to the workers' compensation advisory premium rate.

**Changes in Workers' Compensation Advisory Premium Rates
WCIRB Recommendation v. Insurance Commissioner Approval**



Data Source: WCIRB

California Workers' Compensation Rate Changes

As a result of recent workers' compensation legislative reforms and the subsequent decisions by the IC on advisory premium rates, workers' compensation insurers have reduced their filed rates as indicated in the chart below.

As of July 1, 2006, the cumulative premium weighted average rate reduction filed by insurers with the CDI is 45 percent for all writers including the State Compensation Insurance Fund (SCIF). There have been six rate reductions since the passage of Assembly Bill (AB) 227 and Senate Bill (SB) 228, and individually stated, filed insurer rates were reduced 3.6 percent on January 1, 2004, 7.3 percent on July 1, 2004, 3.8 percent on January 1, 2005, 14.6 percent on July 1, 2005, 14.7 percent on January 1, 2006, and 10.72 percent on July 1, 2006.¹

¹ Source: Douglas G. Barker, J.D., Bureau Chief, California Department of Insurance Rate Filing Bureau.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

The WCIRB reports that actual rates charged in the market place as of March 31, 2006, had fallen by 42 percent since the enactment of AB 227 and SB 228. The average rate per \$100 of payroll fell from \$6.35 in the second half of 2003 to \$3.75 in the first quarter of 2006.²

California Workers' Compensation Insurance Carrier Rate Filing Changes

COMPANY NAME	GROUP NAME	Market share 2005	Cumulative % Change 1/1/04-7/1/06	07/01/ 2006 % Filed Rate Change	01/01/ 2006 % Filed Rate Change	07/01/2005 % Filed Rate Change	01/01/2005 % Filed Rate Change
STATE COMPENSATION INSURANCE FUND		42.08%	-44.22%	-10.00%	-16.00%	-14.00%	-5.00%
ZENITH INSURANCE COMPANY	Zenith National Group	4.96%	-35.60%	-5.00%	-13.10%	-12.00%	-2.00%
AMERICAN HOME ASSURANCE COMPANY	AIG Group	4.07%	-38.06%	-9.00%	-8.00%	-15.10%	-2.40%
ZURICH AMERICAN INSURANCE COMPANY	Zurich Insurance Group	2.52%	-53.92%	-16.40%	-7.70%	-22.70%	-6.40%
EMPLOYERS COMPENSATION INSURANCE COMPANY	Employers Group	2.40%	-56.17%	21.86%	-15.60%	-18.60%	-5.50%
VIRGINIA SURETY COMPANY, INC.	Aon Corporation	2.15%	-41.32%	-16.40%	-15.30%	-18.00%	-3.50%
REPUBLIC INDEMNITY COMPANY OF CALIFORNIA	Great American Group	1.72%	-56.18%	-11.20%	-15.00%	-25.00%	-2.20%
NATIONAL LIABILITY & FIRE INSURANCE COMPANY	Berkshire Hathaway	1.60%	-38.56%	-7.60%	-10.00%	-21.15%	-6.30%
EVEREST NATIONAL INSURANCE COMPANY	Everest Group	1.58%	-46.80%	-16.40%	-19.00%	-13.80%	-1.50%
COMMERCE AND INDUSTRY INSURANCE COMPANY	AIG Group	1.56%	-38.06%	-9.00%	-8.00%	-15.10%	-2.40%

² Source: WCIRB Bulletin 2006-11 July 5, 2006.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

In November 2006, several workers' compensation insurance carriers filed pure premium rate decreases for policies effective in January 2007. The chart below summarizes these decreases.

California Workers' Compensation Insurance Carrier Rate Filing Changes effective January 1, 2007

COMPANY NAME	GROUP NAME	01/01/ 2007 % Filed Rate Change	Date Filing Received
STATE COMPENSATION INSURANCE FUND		-11.00%	11/27/2006
ZENITH INSURANCE COMPANY	Zenith National Group	-4.40%	11/28/2006
AMERICAN HOME ASSURANCE COMPANY	AIG Group	-10.90%	11/28/2006
ZURICH AMERICAN INSURANCE COMPANY	Zurich Insurance Group	-7.50%	12/04/2006
EMPLOYERS COMPENSATION INSURANCE COMPANY	Employers Group	-9.90%	11/28/2006
VIRGINIA SURETY COMPANY, INC.	Aon Corporation	-9.50%	11/15/2006
REPUBLIC INDEMNITY COMPANY OF CALIFORNIA	Great American Group	-7.30%	11/20/2006
NATIONAL LIABILITY & FIRE INSURANCE COMPANY	Berkshire Hathaway	-7.70%	11/08/2006
EVEREST NATIONAL INSURANCE COMPANY	Everest Group	-7.90%	11/27/2006
COMMERCE AND INDUSTRY INSURANCE COMPANY	AIG Group	-10.90%	11/28/2006

The recent workers' compensation rate filing changes noted above could be one of the signs that the workers' compensation insurance market is becoming more stable and competitive.

Workers' Compensation Earned Premium

The WCIRB defines earned premium as the portion of a premium that has been earned by the insurer for policy coverage already provided. For example, one-half of the total premiums will typically be earned six months into an annual policy term.

The total amount of earned workers' compensation premium decreased during the first half of the 1990's, increased slightly in the latter part of the decade, then increased sharply in the new millennium.

This increase in total premium appears to reflect:

- Movement from self-insurance to insurance.
- An increase in economic growth.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

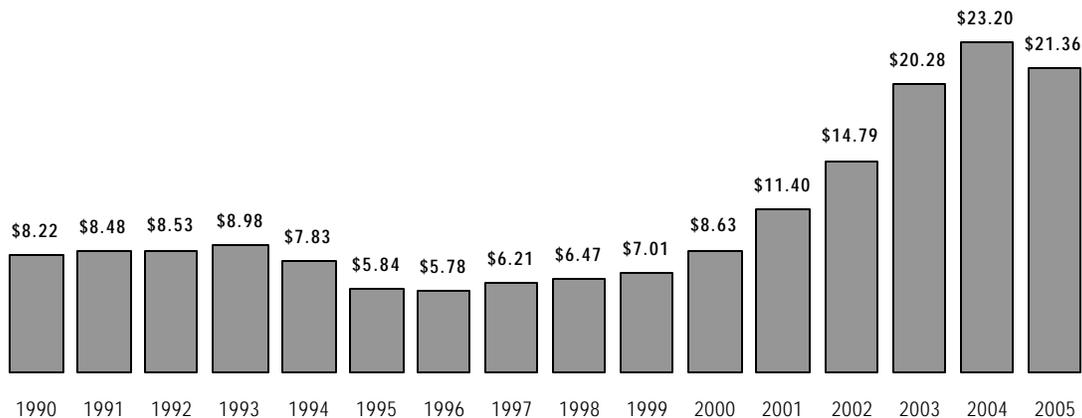
- Wage growth.
- Increase in premium rates.

Premiums from 2001 through 2003 were up sharply primarily due to rate increases in the market. The WCIRB reports that the average rate on 2001 policies was about 34 percent higher than on 2000 policies, and the average rate on 2003 policies was 36 percent higher than on 2002 policies.

While the WCIRB reported that rates began to decline in 2004 and continued to decline in 2005, as a result of earlier rate increases in 2003 as well as the other factors cited above, 2004 earned premiums were up over 2003.

However, earned premiums in 2005 declined sharply as a result of market rate decreases following the reforms that took effect in 2003 and 2004.

Workers' Compensation Earned Premium (In Billion\$, as of June 2006)



Source: WCIRB

Workers' Compensation Written Premium

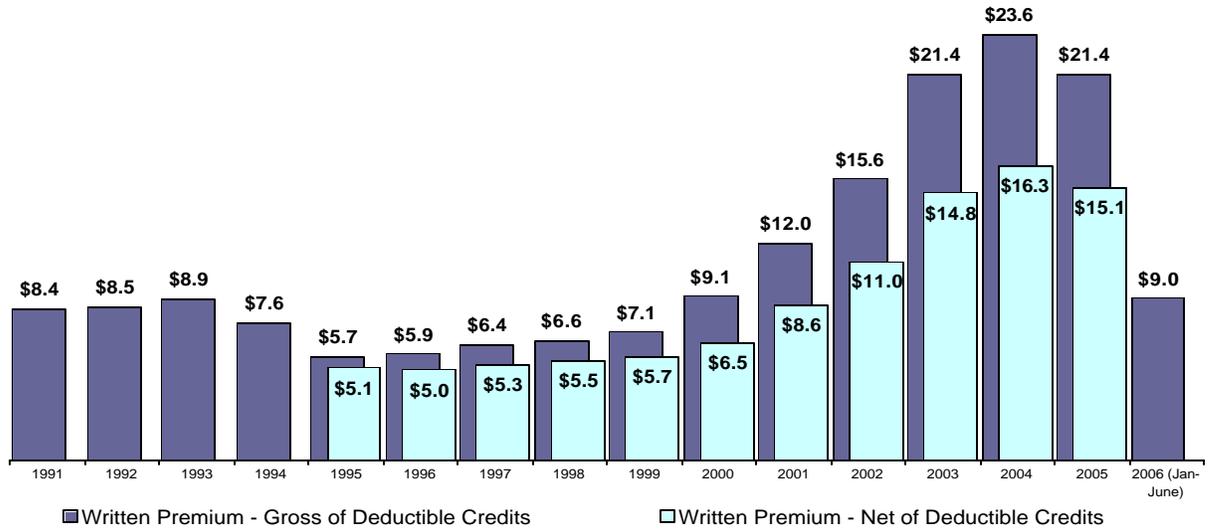
The WCIRB defines written premium as the premium an insurer expects to earn over the policy period. After elimination of the minimum rate law, the total written premium declined from a high of \$8.9 billion in 1993 to a low of \$5.7 billion (\$5.1 billion net of deductible) in 1995. The written premium grew slightly from 1996 to 1999 due to growth of insured payroll, an increase in economic growth and movement from self-insurance to insurance and other factors, rather than due to increased rates. However, even with well over a million new workers covered by the system, the total premium paid by employers remained below the level seen at the beginning of the decade.

At the end of 1999, the IC approved an 18.4 percent pure premium rate increase for 2000, and the market began to harden after five years of open rating, though rates remained less than two-thirds of the 1993 level. Since then, the market has continued to firm, with the IC approving a 10.1 percent increase in the advisory rates for 2001 and a 10.2 percent increase for 2002. The total written premium has increased by 37.2 percent to \$21.4 billion from 2002 to 2003 and to \$23.6 billion from 2002 to 2004. The written premium declined by 11 percent from 23.6 billion to 21.4 billion between 2004 and 2005 due to rate decreases.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

The chart below shows the California workers' compensation written premium before and after the application of deductible credits. Please note that these amounts are exclusive of dividends.

**Workers' Compensation Written Premium
(in billion\$, as of June 30, 2006)**

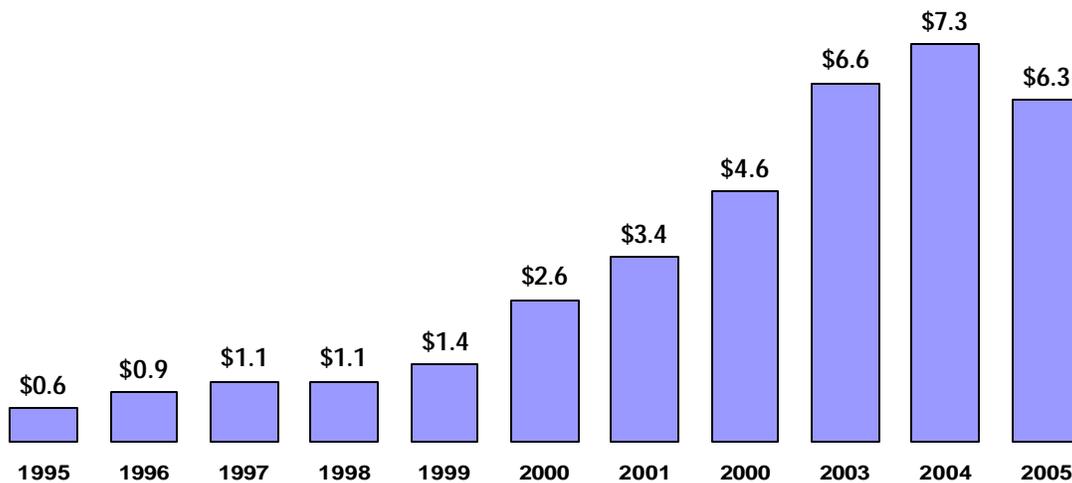


Data Source: WCIRB

Workers' Compensation Premium Deductibles

The following chart shows the changes in the total workers' compensation premium deductibles from 1995 to 2005.

**Workers' Compensation Premium Deductibles
(In Billion\$)**

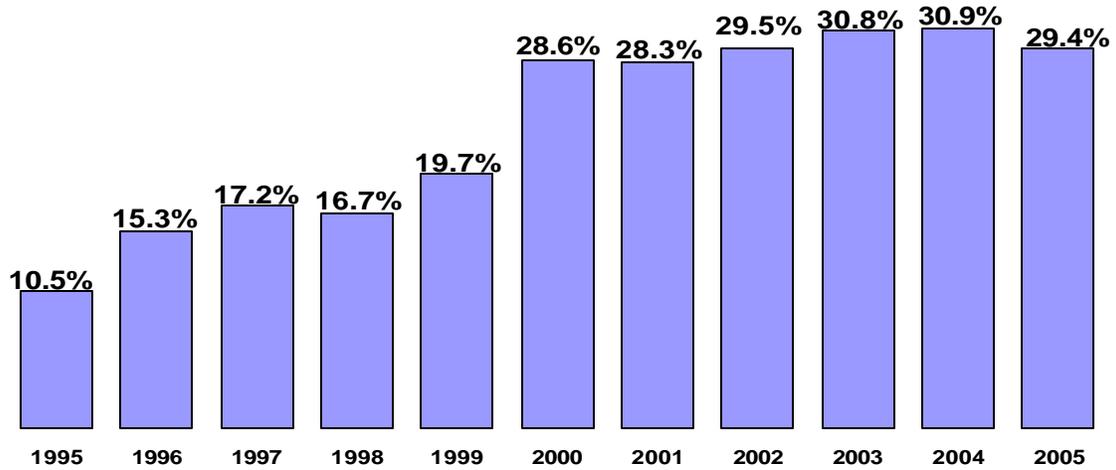


Source: WCIRB

WC Deductibles as Percent of Written Premium

The chart below shows workers' compensation deductibles as a percent of the written premium.

Deductibles as Percentage of Gross Written Premium



Source: WCIRB

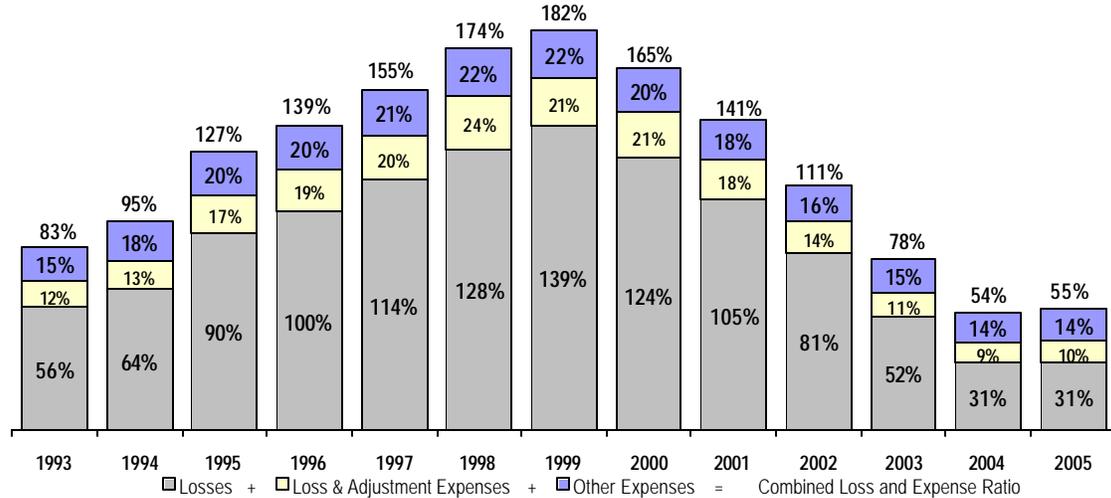
CALIFORNIA WORKERS' COMPENSATION INSURANCE INDUSTRY

Workers' Compensation Insurer Expenses

Combined Loss and Expense Ratios

The accident-year combined loss and expense ratio, which measures workers' compensation claims payments and administrative expenses against earned premium, increased during the late 1990s and has been declining since that time. In accident-year 2005, insurers' claim costs and expenses amounted to \$0.55 for every dollar of premium they collected, which is the lowest combined ratio projected by the WCIRB since the inception of competitive rating and reflects the estimated impact of AB 227, SB 228, and SB 899 on unpaid losses.

California Workers' Compensation Combined Loss and Expense Ratios
 Reflecting the Estimated Impact of AB 227, SB 228 & SB 899
 (as of June 30, 2006)



Insurance Companies' Reserves

The WCIRB estimates that the total cost of benefits on injuries occurring prior to January 1, 2006, is \$7 billion less than insurer-reported loss amounts.

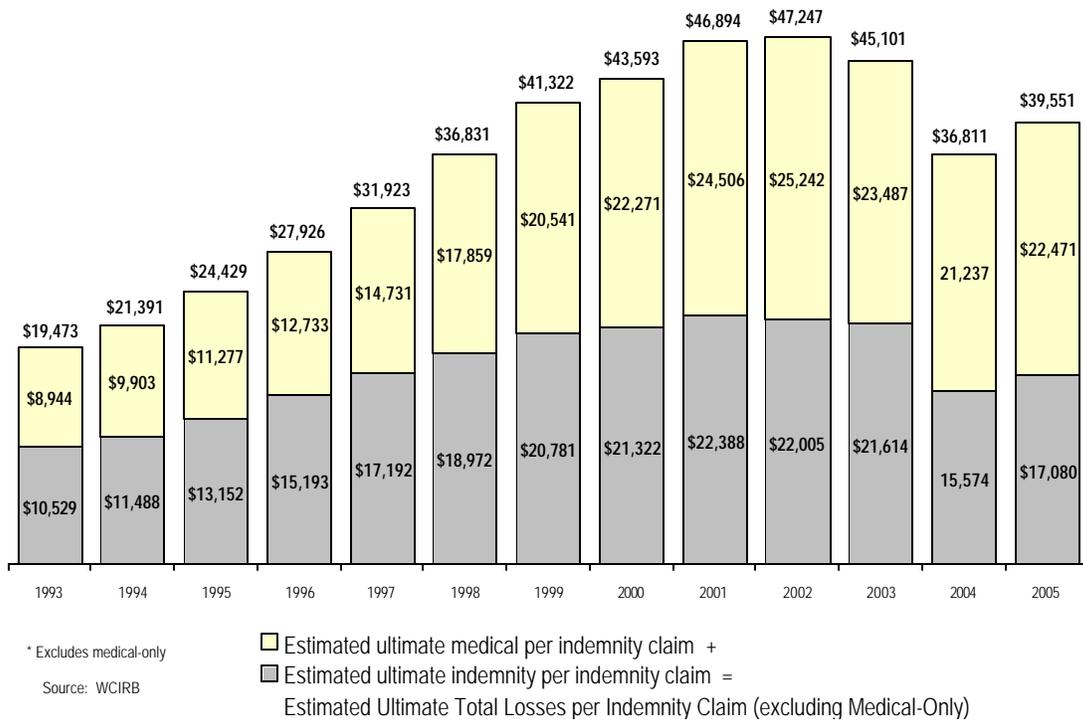
SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Average Claim Costs

At the same time that premiums and claim frequency were declining, the total amount insurers paid on indemnity claims jumped sharply due to increases in the average cost of an indemnity claim, which rose dramatically during the late 1990s.

The total average cost of indemnity claims decreased by 16 percent from 2002 to 2005 reflecting the impact of AB 227, SB 228 and SB 899. However, the total, indemnity and medical average costs per claim increased between 2004 and 2005.

Estimated Ultimate Total Loss per Indemnity Claim
 Reflecting the Impact of AB 227, SB 228 & SB 899 as of June 30, 2006



Please note that the WCIRB's estimates of average indemnity claim costs have not been indexed to take into account wage increase and medical inflation.

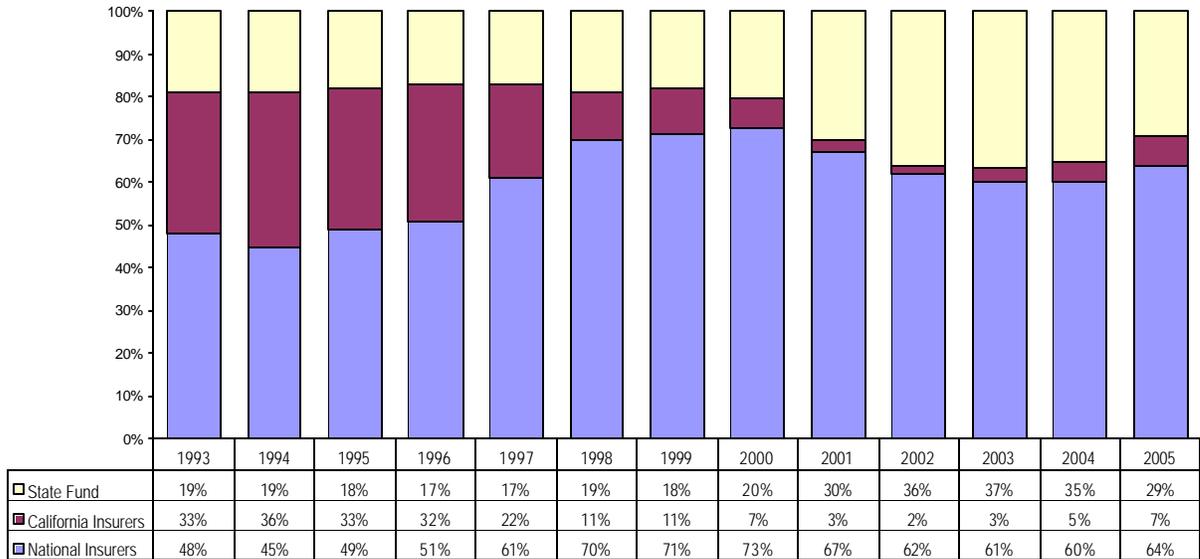
Current State of the Insurance Industry

Market Share

A number of California insurers left the market or reduced their writings as a result of the decrease in profitability, contributing to a major redistribution of market share among insurers since 1993, as shown in the following chart.

According to the WCIRB, California companies (excluding SCIF) insured just 5 percent of the California workers' compensation market in 2004, compared with 36 percent of the market in 1994. From 2002 through 2004, SCIF attained about 35 percent of the California workers' compensation insurance market, double the market share it had in the 1990s. However, between 2004 and 2005, SCIF's market share decreased to 29 percent.

WC Insurance Market Share in California by Type of Insurer
Based on Written Premium Prior to Deductible Credits



Source: WCIRB

Please note that totals may not equal 100% due to rounding.

"California Insurers" are defined as private insurers who write at least 80% of their workers' compensation business in California

Insurance Market Insolvency

Since 2000, a significant number of workers' compensation insurance companies have experienced problems with payment of workers' compensation claims. Thirty-three insurance companies have gone under liquidation and 11 companies have withdrawn from offering workers' compensation insurance during that time. However, since 2004, 12 insurance/reinsurance companies have entered the California workers' compensation market, while only two companies withdrew from the market and two companies were liquidated.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

COMPANY NAME **DATE OF LIQUIDATION**

2000

California Compensation Insurance Company	9/26/2000
Combined Benefits Insurance Company	9/26/2000
Commercial Compensation Casualty Insurance Company	9/26/2000
Credit General Indemnity Company	12/12/2000
LMI Insurance Company	5/23/2000
Superior National Insurance Company	9/26/2000
Superior Pacific Insurance Company	9/26/2000

2001

Credit General Insurance Company	1/5/2001
Great States Insurance Company	5/8/2001
HIH America Compensation & Liability Insurance Company	5/8/2001
Amwest Surety Insurance Company	6/7/2001
Sable Insurance Company	7/17/2001
Reliance Insurance Company	10/3/2001
Far West Insurance Company	11/9/2001
Frontier Pacific Insurance Company	11/30/2001

2002

PHICO	2/1/2002
National Auto Casualty Insurance Company	4/23/2002
Paula Insurance Company	6/21/2002
Alistar Insurance Company	11/2/2002
Consolidated Freightways	9/2002

2003

Western Growers Insurance Company	1/7/2003
Legion Insurance Company	3/25/2003
Villanova Insurance Company	3/25/2003
Home Insurance Company	6/13/2003
Fremont General Corporation	7/2/2003
Wasatch Crest Insurance Co. (No WC policies)	7/31/2003
Pacific National Insurance Co.	8/5/2003

2004

Protective National Insurance Company	2/12/04
Holland-America Insurance Company	7/29/04
Casualty Reciprocal Exchange	8/18/04

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

2005

Cascade National Insurance Company/Washington	11/4/05
South Carolina Insurance Company/South Carolina	3/21/05
Consolidated American Insurance Company/South Carolina	3/21/05

COSTS OF WORKERS' COMPENSATION IN CALIFORNIA

Costs Paid by Insured Employers

The cost of workers' compensation insurance in California has undergone dramatic changes in the past ten years due to a combination of factors.

When the workers' compensation insurance industry was deregulated beginning in 1995, insurers competed by lowering premium rates, in many instances lower than their actual costs. Many insurers drew on their reserves to make up the difference and several insurers went bankrupt. Subsequently, the surviving insurers charged higher premium rates to meet costs and begin to replenish reserves.

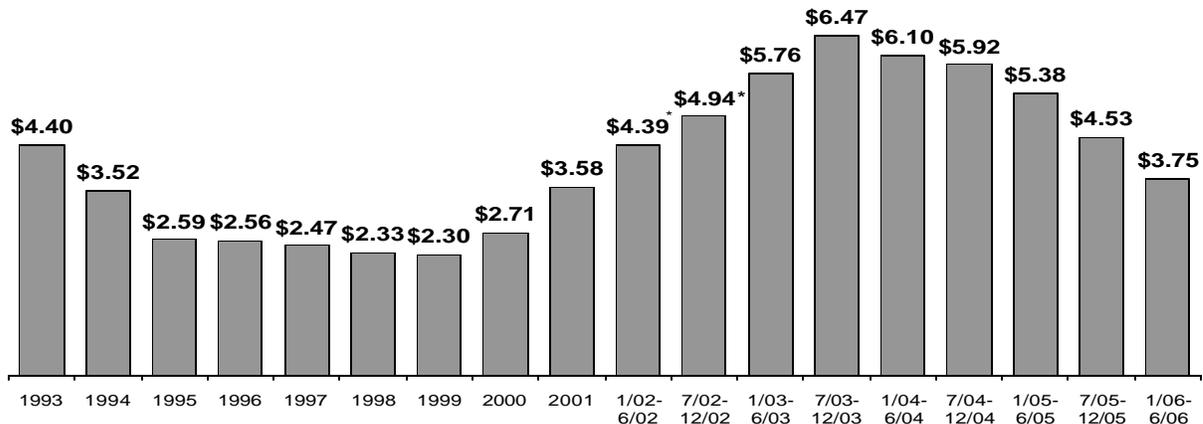
The California workers' compensation legislative reforms in the early 2000s, which were developed to control medical costs, update indemnity benefits and improve the assessment of permanent disability (PD), also had significant impact on insurance costs.

As intended by the most recent reforms, workers' compensation costs in California have begun to decline. The charts below illustrate the impact of those factors.

Workers' Compensation Average Premium Rate

The following chart shows the average workers' compensation premium rate per \$100 of payroll. The average dropped during the early-to-mid 1990s, stabilized during the mid-to-late 1990s, and then rose significantly beginning in 2000 up to the second of half of 2003. However, the average rate has dropped every year since that time. In the first half of 2006, the average rate was lower than in 1993.

Average Workers' Compensation Insurer Rate Per \$100 of Payroll as of June 30, 2006



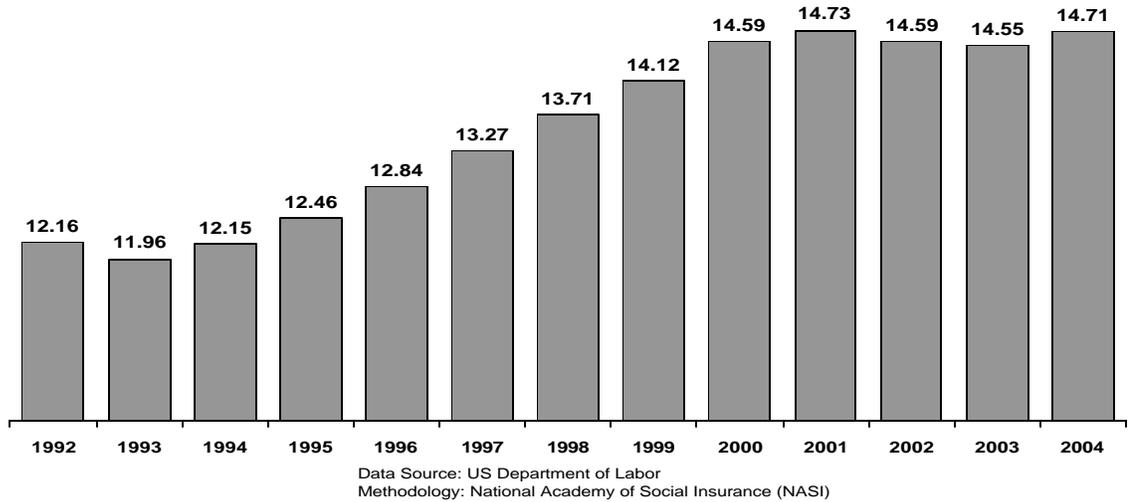
Data Source: WCIRB

* Excludes the impact of the adopted changes to outstanding policy year 2002 pure premium rates effective January 1, 2003

Workers Covered by Workers' Compensation Insurance

The estimated number of California workers covered by workers' compensation insurance grew by about 20 percent from 12.16 million in 1992 to 14.59 million in 2000. From 2000 through 2004, the number of covered workers in California stabilized, averaging about 14.63 million per year.

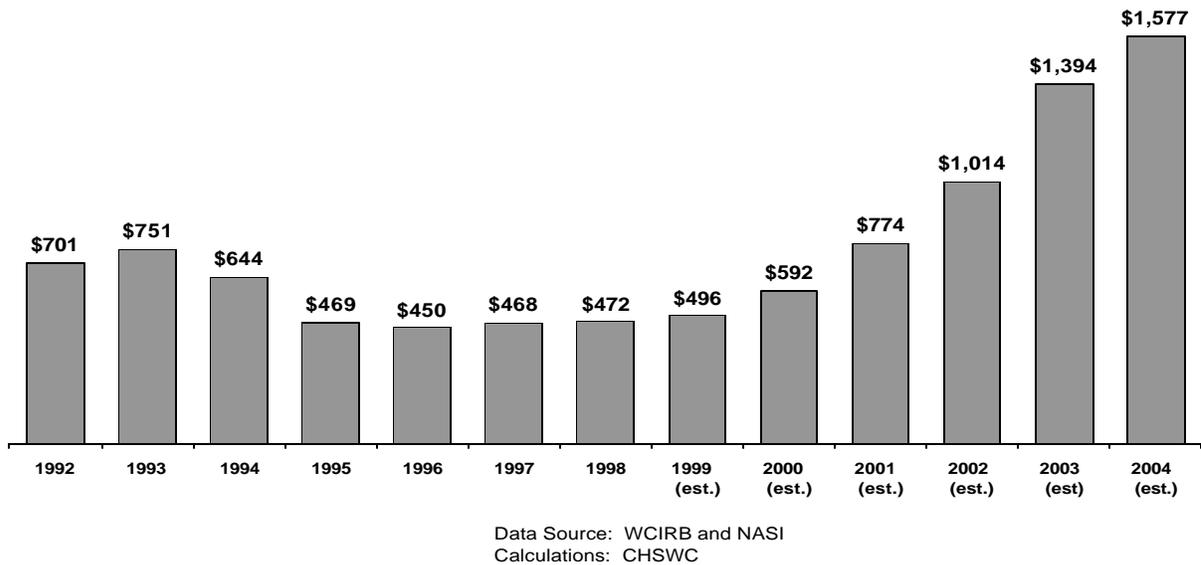
**Workers Covered by WC Insurance in California
(Estimate in Millions)**



Average Earned Premium per Covered Worker

As shown in the graph below, the average earned premium per covered worker dropped during the early-to-mid 1990s, leveled off for a few years, and then more than tripled between 1999 and 2004.

Average Premium per Covered Worker



SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Workers' Compensation System Expenditures

Indemnity Benefits

The WCIRB provided the cost of indemnity benefits paid by insured employers. Assuming that insured employers comprise approximately 80 percent of all employers, estimated indemnity benefits are shown on the following chart for the total system and for self-insured employers.

System-wide Estimated Costs of Paid Indemnity Benefits

Indemnity Benefit(Thousand\$)	2004	2005	Change
Temporary Disability	\$2,449,301	\$2,084,649	-\$364,652
Permanent Total Disability	\$108,528	\$140,963	\$32,436
Permanent Partial Disability	\$2,555,420	\$2,502,040	-\$53,380
Death	\$63,361	\$74,460	\$11,099
Funeral Expenses	\$1,819	\$1,744	-\$75
Life Pensions	\$39,775	\$52,351	\$12,576
Vocational Rehabilitation	\$732,825	\$588,395	-\$144,430
Total	\$5,951,029	\$5,444,602	-\$506,427

Paid by Insured Employers

Indemnity Benefit(Thousand\$)	2004	2005	Change
Temporary Disability	\$1,959,441	\$1,667,719	-\$291,722
Permanent Total Disability	\$86,822	\$112,770	\$25,948
Permanent Partial Disability	\$2,044,336	\$2,001,632	-\$42,704
Death	\$50,689	\$59,568	\$8,879
Funeral Expenses	\$1,455	\$1,395	-\$60
Life Pensions	\$31,820	\$41,881	\$10,061
Vocational Rehabilitation	\$586,260	\$470,716	-\$115,544
Total	\$4,760,823	\$4,355,681	-\$405,142

Paid by Self-Insured Employers*

Indemnity Benefit(Thousand\$)	2004	2005	Change
Temporary Disability	\$489,860	\$416,930	-\$72,930
Permanent Total Disability	\$21,706	\$28,193	\$6,487
Permanent Partial Disability	\$511,084	\$500,408	-\$10,676
Death	\$12,672	\$14,892	\$2,220
Funeral Expenses	\$364	\$349	-\$15
Life Pensions	\$7,955	\$10,470	\$2,515
Vocational Rehabilitation	\$146,565	\$117,679	-\$28,886
Total	\$1,190,206	\$1,088,921	-\$101,285

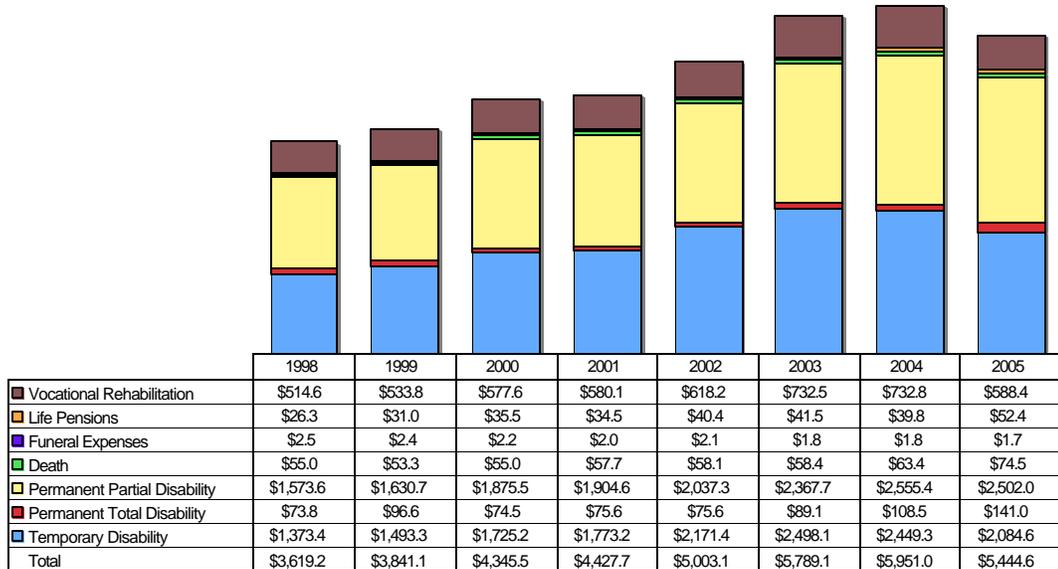
* Figures estimated based on insured employers' cost. Self-insured employers are estimated to comprise 20 percent of all California employers.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Trends in Paid Indemnity Benefits

The estimated system-wide paid indemnity costs for the past several years are displayed in the chart below. The cost of the total indemnity benefit increased 64 percent from 1998 to 2004, then decreased by 8.5 percent from 2004 to 2005. The costs of temporary disability (TD), permanent partial disability (PPD), and vocational rehabilitation also declined from 2004 to 2005 after years of growth. Costs of life pensions, death benefits and permanent total disability increased from 1998 through 2005.

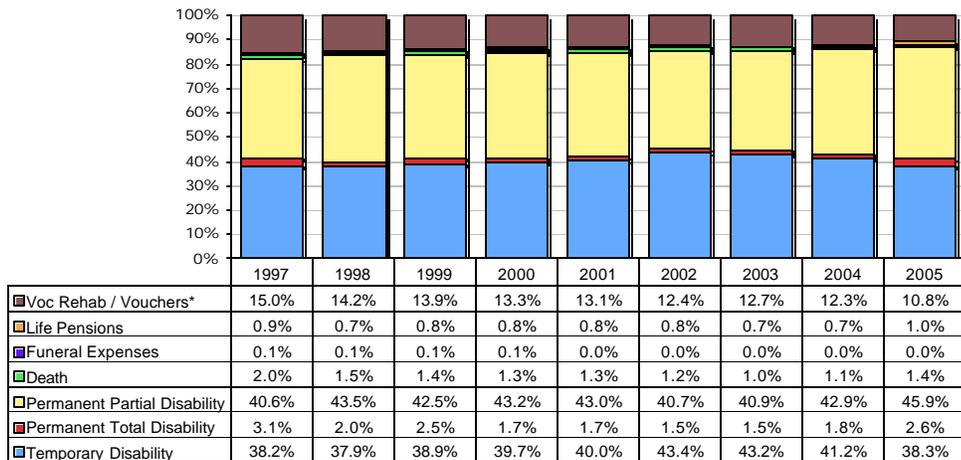
**Workers' Compensation Paid Indemnity Benefit
System-Wide Estimated Costs in Million\$**



Source: WCIRB Calculations: CHSWC

The following chart depicts the proportion of the total cost of paid indemnity contributed by each component.

Distribution of Paid Indemnity Benefits



* Vocational Rehabilitation / Non-transferable Educational Vouchers

Source: WCIRB

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Medical Benefits

System-Wide Estimated Costs - Medical Benefits Paid

Medical Benefits (Thousand\$)	2004	2005	Change
Physicians	\$2,984,963	\$2,380,874	-\$604,089
Capitated Medical	\$13,255	\$35,405	\$22,150
Hospital	\$1,571,848	\$1,311,136	-\$260,712
Pharmacy	\$597,528	\$545,493	-\$52,035
Payments Made Directly to Patient	\$181,526	\$186,348	\$4,822
Medical-Legal Evaluation	\$200,509	\$229,748	\$29,239
Medical Cost Containment Programs*	\$194,713	\$111,369	-\$83,344
Total	\$5,744,342	\$4,800,373	-\$943,969

Paid by Insured Employers

Medical Benefits (Thousand\$)	2004	2005	Change
Physicians	\$2,387,970	\$1,904,699	-\$483,271
Capitated Medical	\$10,604	\$28,324	\$17,720
Hospital	\$1,257,478	\$1,048,909	-\$208,569
Pharmacy	\$478,022	\$436,394	-\$41,628
Payments Made Directly to Patient	\$145,221	\$149,078	\$3,857
Medical-Legal Evaluation	\$160,407	\$183,798	\$23,391
Medical Cost-Containment Programs*	\$155,770	\$89,095	-\$66,675
Total	\$4,595,472	\$3,840,297	-\$755,175

Paid by Self-Insured Employers**

Medical Benefits (Thousand\$)	2004	2005	Change
Physicians	\$596,993	\$476,175	-\$120,818
Capitated Medical	\$2,651	\$7,081	\$4,430
Hospital	\$314,370	\$262,227	-\$52,143
Pharmacy	\$119,506	\$109,099	-\$10,407
Payments Made Directly to Patient	\$36,305	\$37,270	\$965
Medical-Legal Evaluation	\$40,102	\$45,950	\$5,848
Medical Cost-Containment Programs*	\$38,943	\$22,274	-\$16,669
Total	\$1,148,870	\$960,076	-\$188,794

* Figures for medical cost-containment programs are based on a sample of insurers who reported medical cost-containment expenses to the WCIRB.

** Figures estimated based on insured employers' costs.

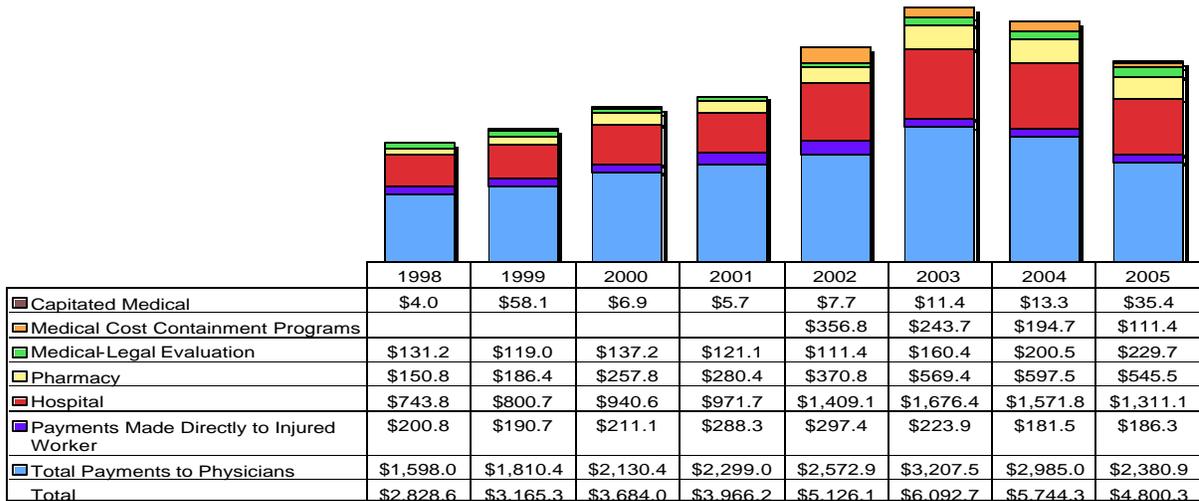
Self-insured employers are estimated to comprise 20 percent of all California employers.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Trends in Paid Medical Benefits

The estimated system-wide paid medical costs for the past several years are displayed in the chart below. The following trends may result from the impact of the recent workers' compensation reforms. The cost of the total medical benefit doubled from 1998 to 2003, then decreased by 21 percent from 2003 to 2005. Pharmacy costs nearly quadrupled from 1998 through 2004, before declining slightly from 2004 to 2005. Expenditures on medical cost-containment programs in 2005 were less than a third of what they were in 2002. Hospital costs more than doubled from 1998 to 2003, then declined by 22 percent from 2003 to 2005. Medical-legal evaluation costs fluctuated from 1998 to 2002, then doubled between 2002 and 2005. Payments to physicians doubled from 1998 to 2003, then dropped by 26 percent from 2003 to 2005.

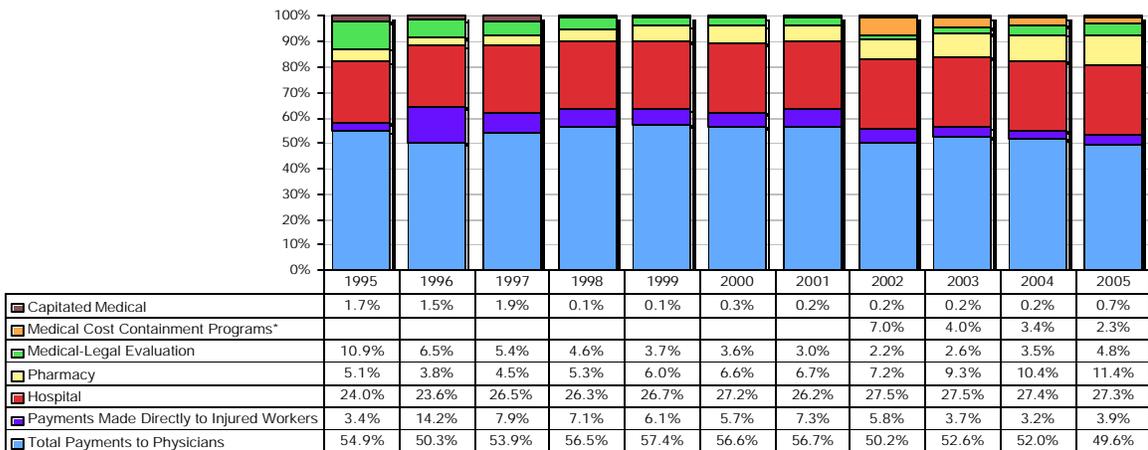
Workers' Compensation Paid Medical Benefit System-Wide Estimated Costs in Million\$



Source: WCIRB Calculations: CHSWC

The following chart depicts the proportion of the total cost of paid medical contributed by each component.

Distribution of Paid Medical Costs

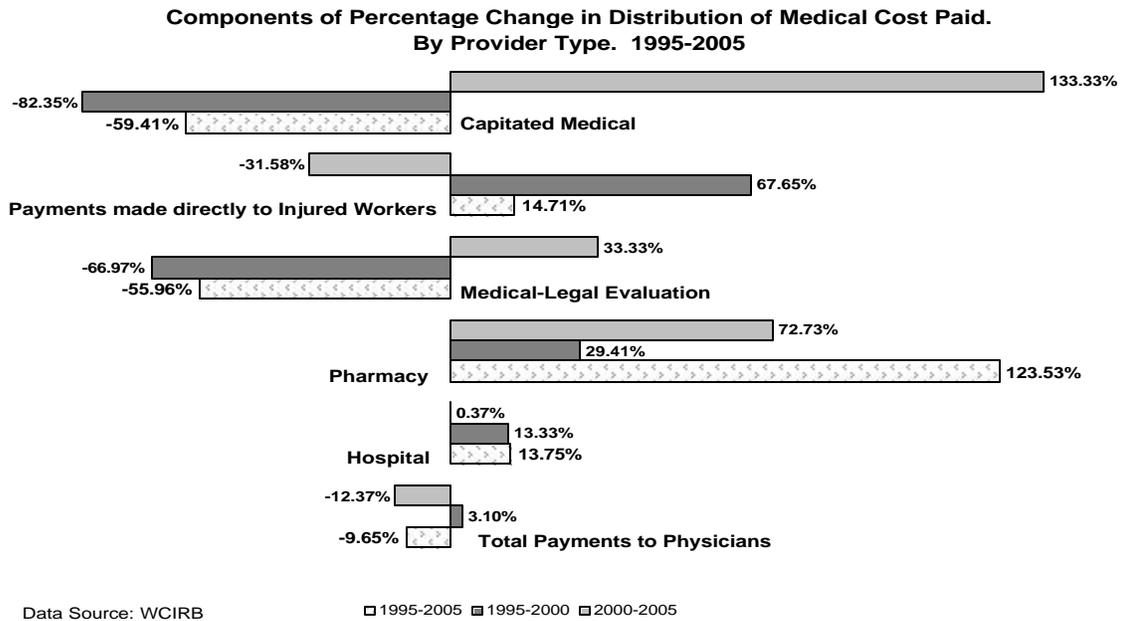


* Figures for medical cost containment programs are based on a sample of insurers who reported medical cost containment expenses to the WCIRB. The reporting of this data was voluntary for calendar year 2002 but mandatory beginning with calendar year 2003 payments.

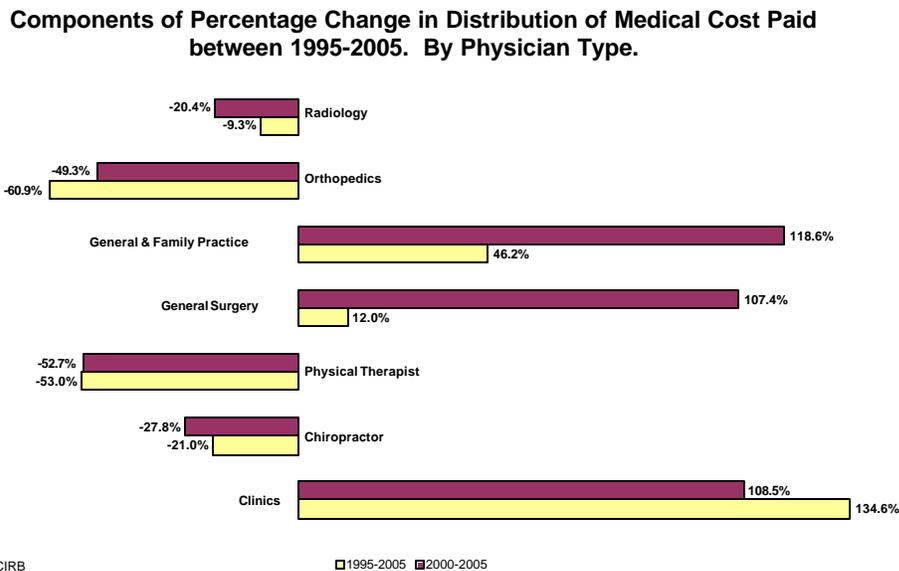
Source: WCIRB

Changes in Medical Payments by Type of Provider

The chart below shows the increase in the distribution of medical payments to categories of providers. The biggest increase in the distribution of medical payments for the period of 1995 to 2005 was for pharmacies followed by hospitals. For the period of 2000 to 2005, the biggest increase was for capitated medical followed by pharmacies. In the period of 2000 to 2005, there were either less increases or greater decreases than in the period of 1995 to 2000 for the following categories of medical costs: payments to physicians; hospitals; and payments made directly to injured workers.



The chart below shows the change in distribution of medical costs paid by provider type. The biggest increase in the years between 2000 and 2005 was in general and family practice, general surgery and the clinics. The biggest decreases were in physical therapists, orthopedics and chiropractors.



SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Average Cost per Claim by Type of Injury

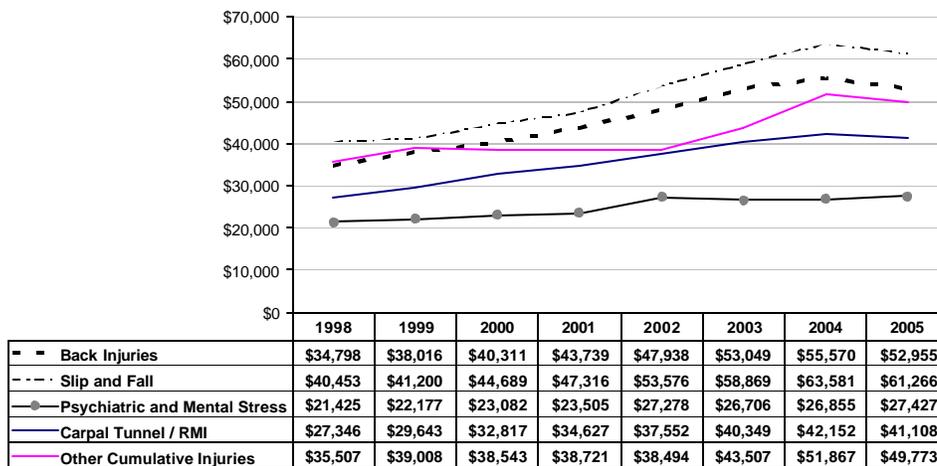
As shown in the following chart, there have been significant increases in average cost per claim for several types of injuries. From 1997 to 2003, slips and falls increased by 61 percent, back injuries by 59 percent, followed by carpal tunnel/repetitive motion injuries (RMI) by 56 percent.

On the other hand, average costs of psychiatric and mental stress claims appeared to have levelled off through 2001, increased slightly in 2002, and have been mostly stable since then.

From 2003 to 2004, the average cost for some types of injuries, such as back injuries and carpal tunnel/RMI, increased only slightly and appeared to be leveling off.

From 2004 to 2005, the average costs for all of the types of injuries shown below, with the exception of psychiatric and mental stress, have begun to decline.

Average Cost per WC Claim by Type of Injury*

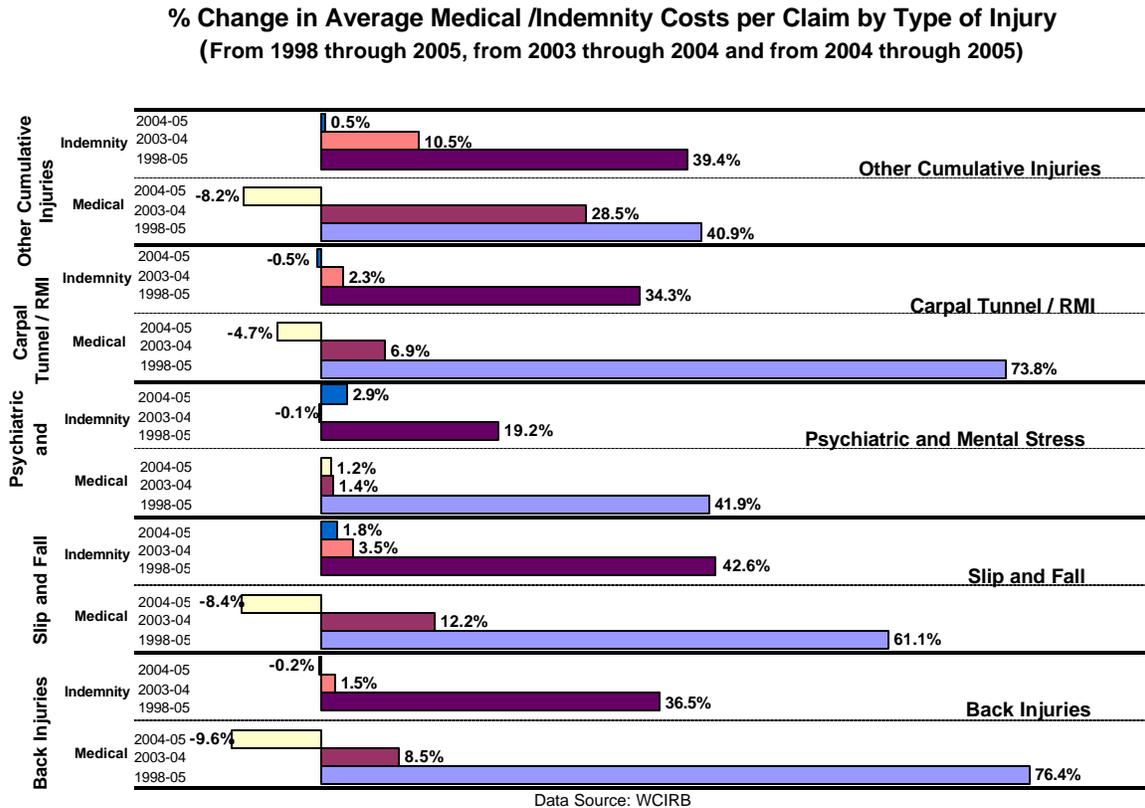


* These categories are not mutually exclusive. For example, some back injuries result from slips and falls.

Source: WCIRB

Changes in Average Medical and Indemnity Costs per Claim by Type of Injury

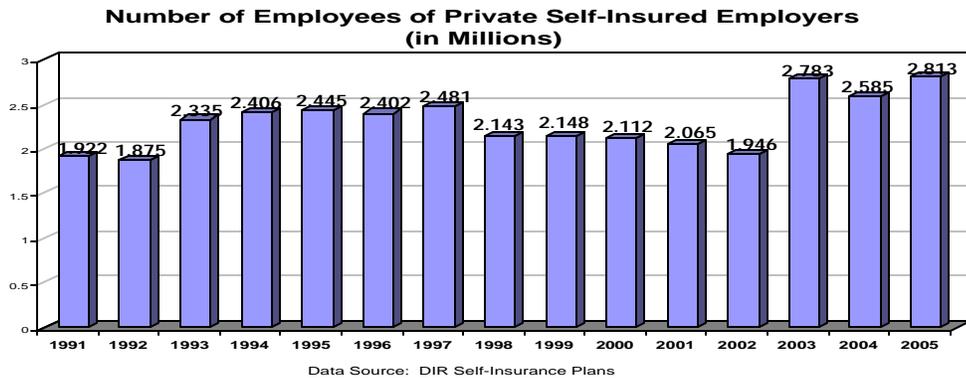
As shown in the chart below, the average medical cost per claim decreased between 2004 and 2005 for every injury category, with the exception of psychiatric and mental stress. The biggest decrease in 2004 to 2005 was in the back-injury category.



Workers' Compensation System Expenditures- Self-Insured Private and Public Employers

Private Self-Insured Employers

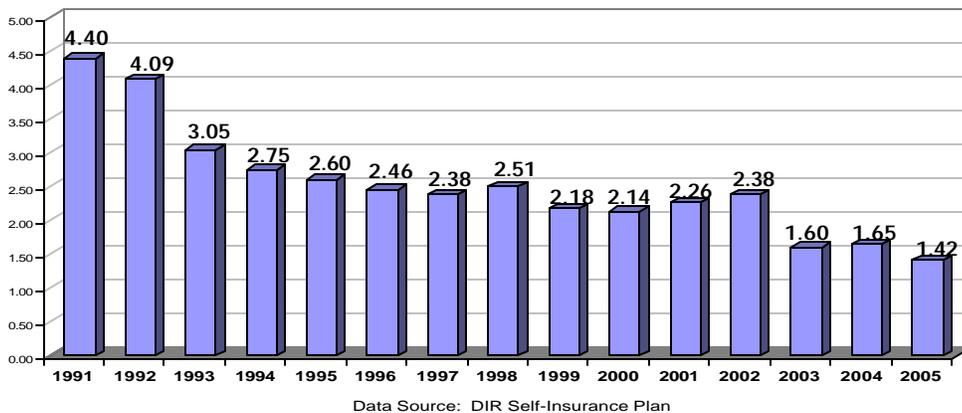
The following chart shows the number of employees working for private self-insured employers between 1991 and 2005. The number of employees declined slightly between 1991 and 1992, then increased by 25 percent between 1992 and 1993. Between 1993 and 1997, the number of employees working for private self-insured employers remained fairly stable, declining by 14 percent between 1997 and 1998. Between 1998 and 2001, the number of employees remained fairly stable; then, between 2002 and 2003, it increased sharply by 43 percent, then decreased by about 7 percent between 2003 and 2004, and increased again by almost 9 percent from 2004 to 2005.



Indemnity Claims

The number of indemnity claims of employees working for private self-insured employers declined between 1991 and 1997 by 46 percent, followed by a slight increase of 5 percent from 1997 to 1998. From 1998 to 2000, the number of indemnity claims decreased by 14.7 percent and remained stable until 2002, then decreased by 33 percent in 2003. Between 2003 and 2004, the number of indemnity claims per 100 employees slightly increased by 3 percent from 1.60 to 1.65 and then decreased by 13.9 percent between 2004 and 2005.

**Indemnity Claims Per 100 Employees
of Private Self-Insured Employers**

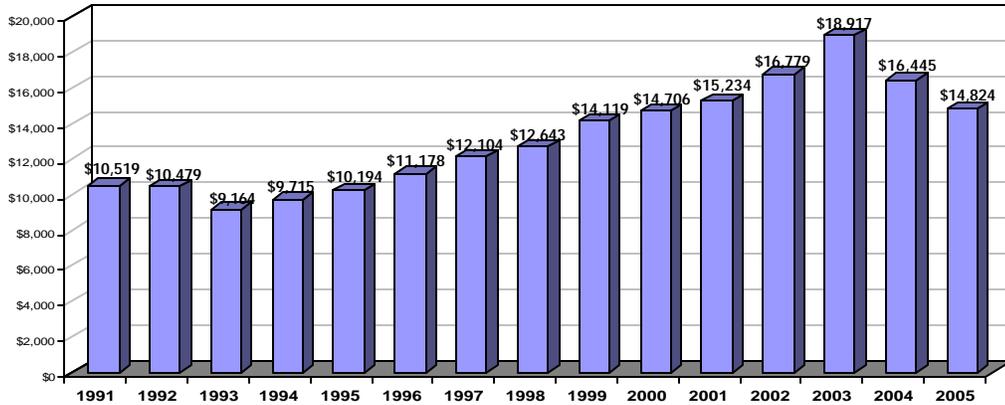


SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Incurred Cost per Indemnity Claim

The following chart shows the incurred cost per indemnity claim for private self-insured employers. During 1991 and 1992, the incurred cost per indemnity claim was stable. It dropped by 13 percent from 1992 to 1993; then between 1993 and 2003, the incurred cost per indemnity claim doubled and then decreased by about 21.6 percent between 2003 and 2005.

Incurred Cost Per Indemnity Claim of Private Self-Insured Employers

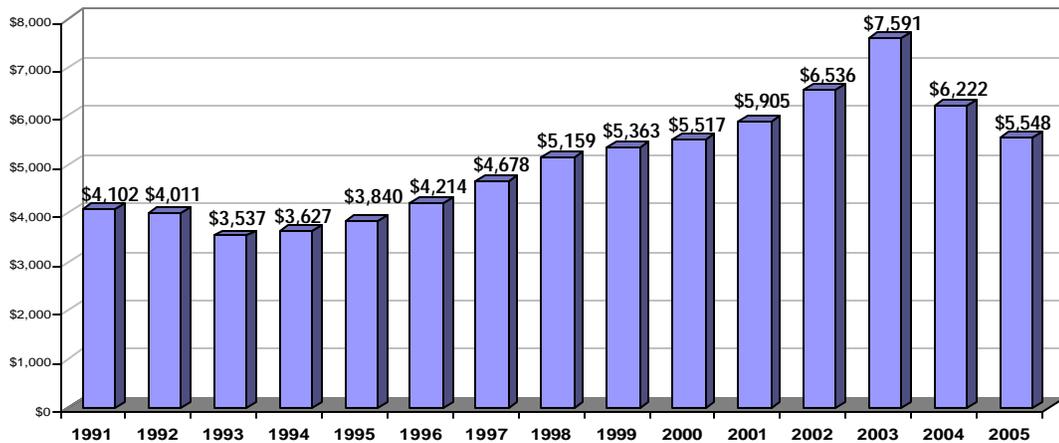


Data Source: DIR Self-Insurance Plans

Average Incurred Cost per Indemnity and Medical Claim

The average incurred cost per indemnity and medical claim for the private sector was stable during 1991 and 1992, followed by a decline of 13 percent in 1993. It levelled off from 1993 to 1995, then increased by almost double by 2002. From 2002 to 2003, the incurred cost per indemnity and medical claim grew by 16 percent and then decreased by 27 percent between 2003 and 2005.

Incurred Cost Per Claim-Indemnity and Medical Private Self-Insurers



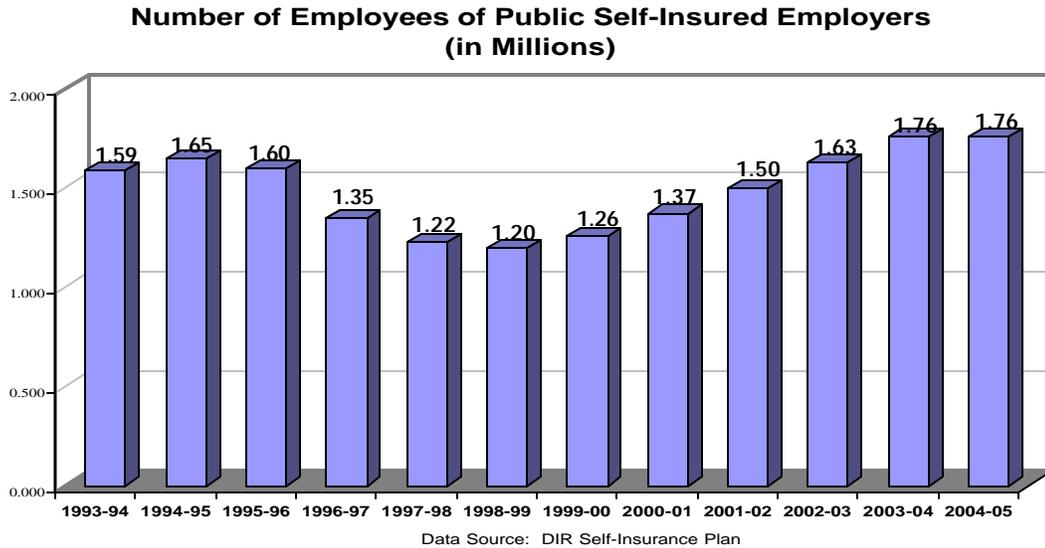
Data Source: DIR Self-Insurance Plan

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Public Self-Insured Employers

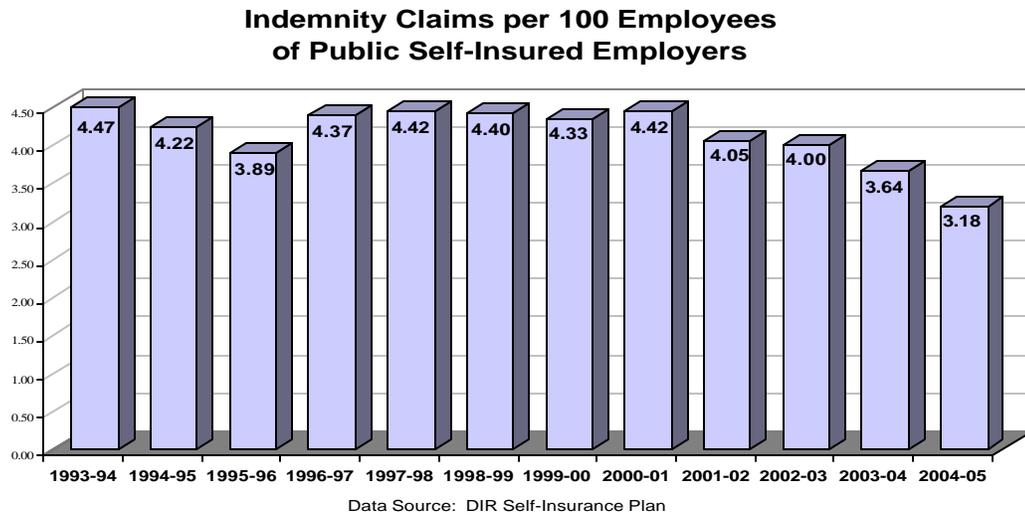
Number of Employees

The following chart shows the number of public self-insured employers between fiscal years 1993-94 and 2004-05. The number of public self-insured employers declined between 1994-1994 and 1998-1999. Between 1998-1999 and 2003-2004, the number of employees working for public self-insured employers grew by 44 percent, then levelled off between 2003-2004 and 2004-2005.



Indemnity Claims

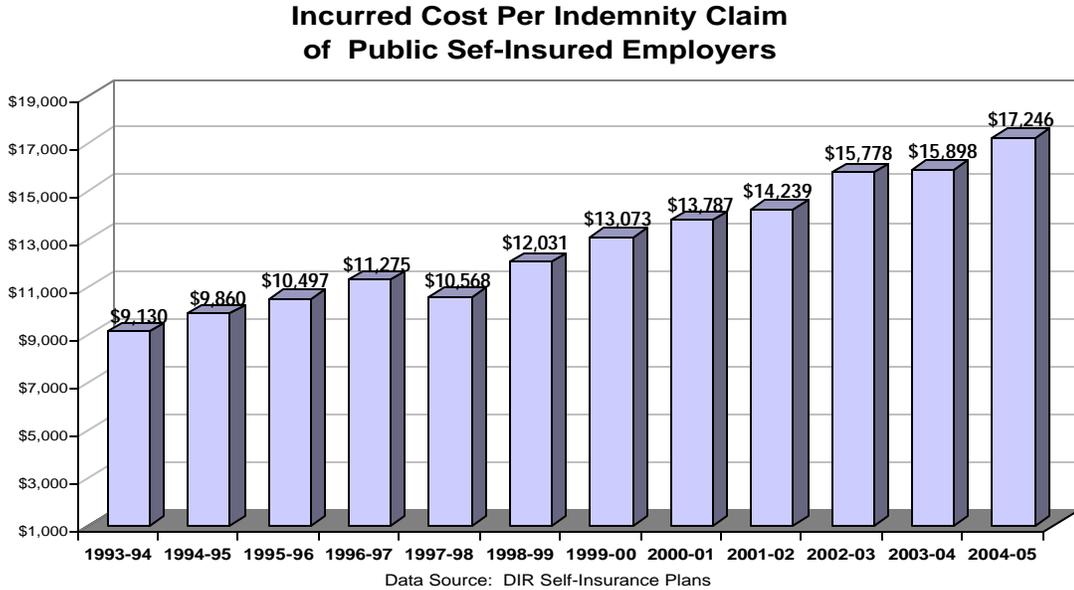
The number of indemnity claims of employees working for public self-insured employers remained steady between 1996-1997 to 2000-2001. Between 2000-2001 and 2004-2005, the number of indemnity claims decreased steadily to the lowest in the past 12 years.



SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

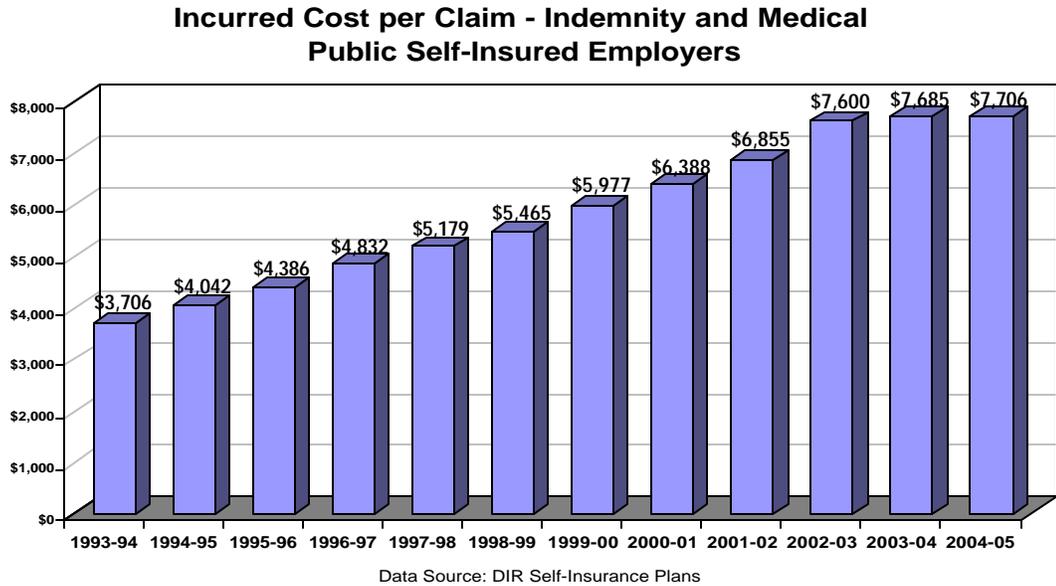
Incurred Cost per Claim

The following chart shows the incurred cost per indemnity claim for public self-insured employers. Between 1993-1994 and 2004-2005, the incurred cost per indemnity claim nearly doubled from \$9,130 to \$17,246.



Incurred Cost per Indemnity and Medical Claim

The following chart shows the incurred cost per indemnity and medical claim for public self-insured employers. Between 1993-1994 and 2002-2003, the incurred cost per indemnity and medical claim doubled, then levelled off between 2003-2004 and 2004-2005.



SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Vocational Rehabilitation Costs

Vocational Rehabilitation Settlements

The WCIRB has compiled information from the most current WCIRB Permanent Disability Claim Survey. In total, 9.6 percent of accident-year 2003 PD claim costs involved vocational rehabilitation settlements as of, on average, 28 months. The average settlement in these cases was \$6,046. For accident-year 2003, the first year in which such settlements were allowed, settlements comprised 11 percent of total vocational rehabilitation costs.

Vocational Rehabilitation Incurred Costs

The WCIRB has summarized initial first unit report level statistical submissions with respect to accident-year 2005 claims on 2004 policies and accident-year 2004 claims on 2003 policies. The table below shows preliminary summaries of this information at first unit report level for partial accident years and at a combination of first and second unit report levels for complete accident years. This preliminary unit statistical information suggests that vocational rehabilitation cost per claim has declined by approximately 75 percent subsequent to the reforms.

Table: Vocational Rehabilitation Incurred Costs At First Report Level

Policy Year / Accident Year	% of Indemnity Claims with VR	Change from Average of AY 2001-03	VR. Cost Per VR Claim	Change from Average of AY 2001-03	VR Cost Per Indemnity Claim	VR Cost Level Change From Average of AY 2001-03
2000/2001	19.6%	—	\$6,115	—	\$1,196	—
2001/2002	19.5%	—	\$5,945	—	\$1,158	—
2002/2003	18.3%	—	\$6,333	—	\$1,158	—
2003/2004	8.8%	-54%	\$3,774	-38%	\$330	-72%
2004/2004	7.9%	-58%	\$3,326	-46%	\$264	-74%

Table: Vocational Rehabilitation Incurred Costs At First/Second Report Levels

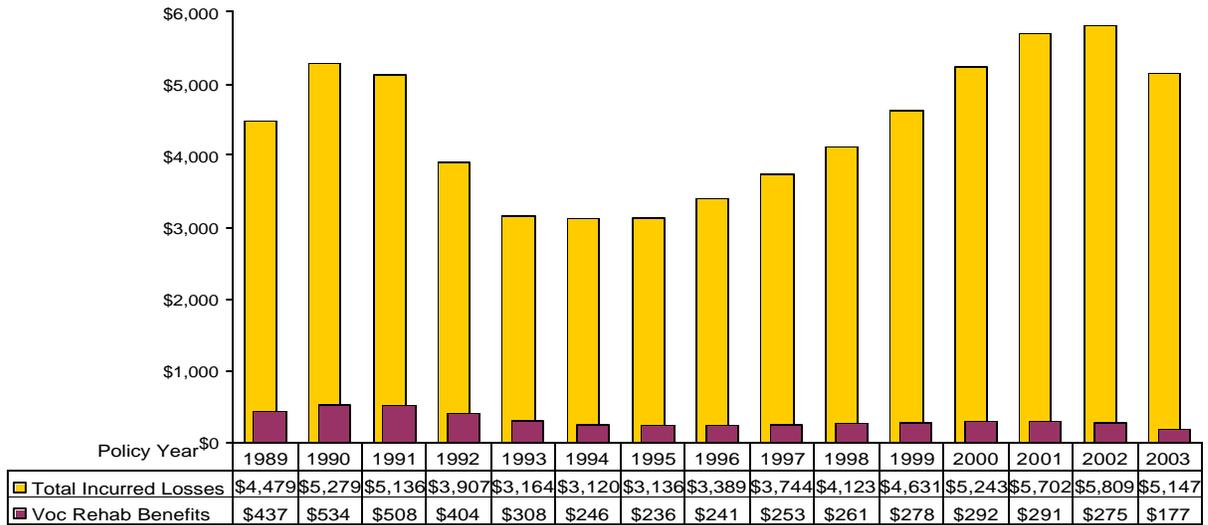
Accident Year	% of Indemnity Claims with VR	Change from Average of AY 2001-03	VR. Cost Per VR Claim	Change from Average of AY 2001-03	VR Cost Per Indemnity Claim	VR Cost Level Change From Average of AY 2001-03
2001	22.8%	—	\$8,008	—	\$1,828	—
2002	22.9%	—	\$8,248	—	\$1,888	—
2003	21.4%	—	\$7,972	—	\$1,704	—
2004	10.4%	-53%	\$4,349	-46%	\$454	-75%

Data Source: WCIRB

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

AB 749 repealed the workers' compensation vocational rehabilitation benefit for dates of injury on or after January 1, 2004. SB 899 provided that vocational rehabilitation benefits are available only to eligible workers who were injured before 2004 and will be available only through December 31, 2008.

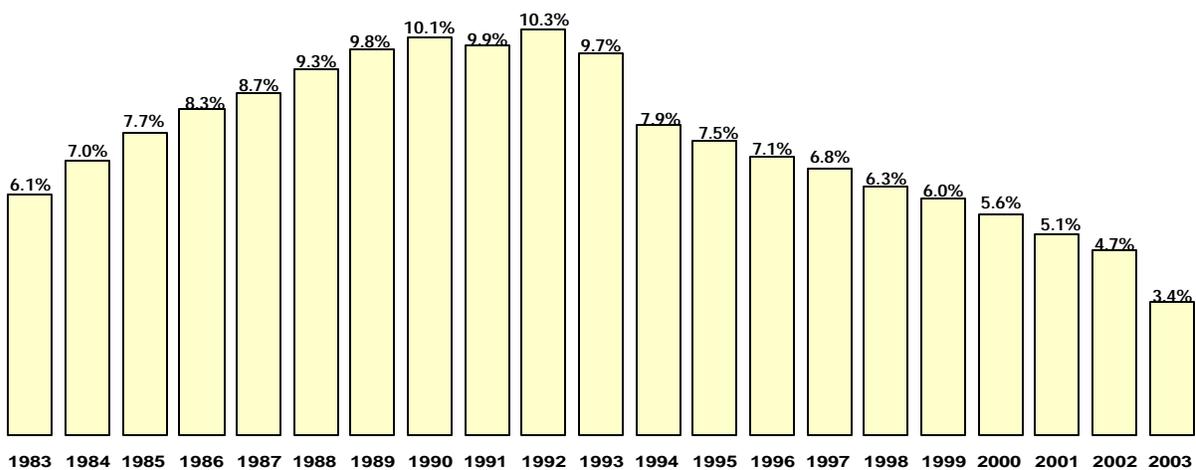
Vocational Rehabilitation Benefits Compared with Total Incurred Losses, WCIRB 1st Report Level (in Millions\$)



Data Source: WCIRB

The chart below shows the vocational rehabilitation costs as a percentage of total incurred losses. The vocational rehabilitation costs as a percentage of losses reached their peak in 1992 and have been declining since then.

Vocational Rehabilitation Costs as Percent of Total Incurred Losses



Source: WCIRB (1st Level Reports for Each Policy Year)

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

The following chart shows the amount paid for each component of the vocational rehabilitation benefit each year from 2002 through 2005.

**Paid Vocational Rehabilitation
(Million\$)**

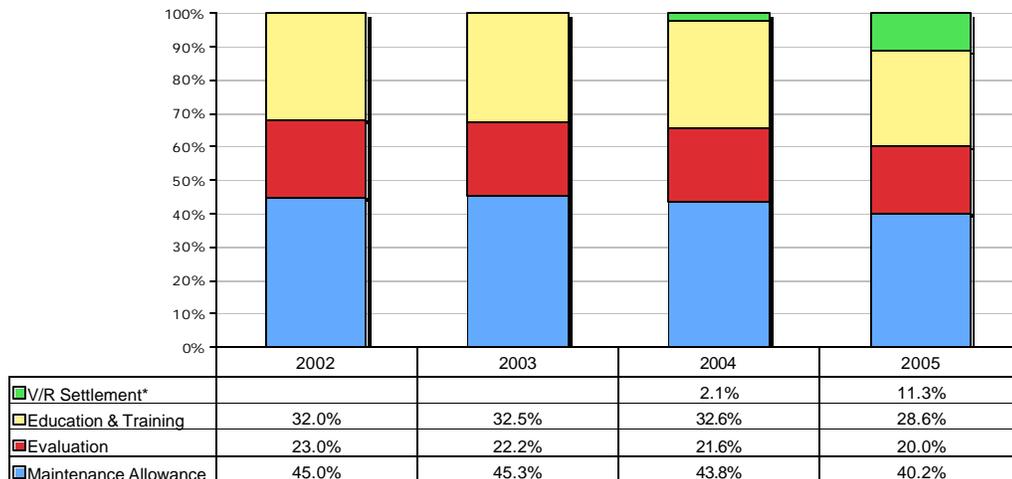


* Vocational rehabilitation settlements were allowed on injuries occurring on or after January 1, 2003 pursuant to Assembly Bill No. 749.

Source: WCIRB

This graph below depicts the proportion that each component of the vocational rehabilitation benefit contributes to the total. Since AB 749 allowed vocational rehabilitation settlements for injuries on or after January 1, 2003, such settlements have grown to more than 11 percent of the total paid costs.

Distribution of Paid Vocational Rehabilitation



* Vocational rehabilitation settlements were allowed on injuries occurring on or after January 1, 2003 pursuant to Assembly Bill No. 749.

Source: WCIRB

Medical-Legal Expenses

Reform legislation changes to the medical-legal process were intended to reduce both the cost and the frequency of litigation. Starting in 1989, legislative reforms restricted the number and lowered the cost of medical-legal evaluations needed to determine the extent of PD. The reform legislation also limited workers' compensation judges to approving the PD rating proposed by one side or the other ("baseball arbitration"). In addition, the Legislature created the qualified medical evaluator (QME) designation and increased the importance of the treating physician's reports in the PD-determination process.

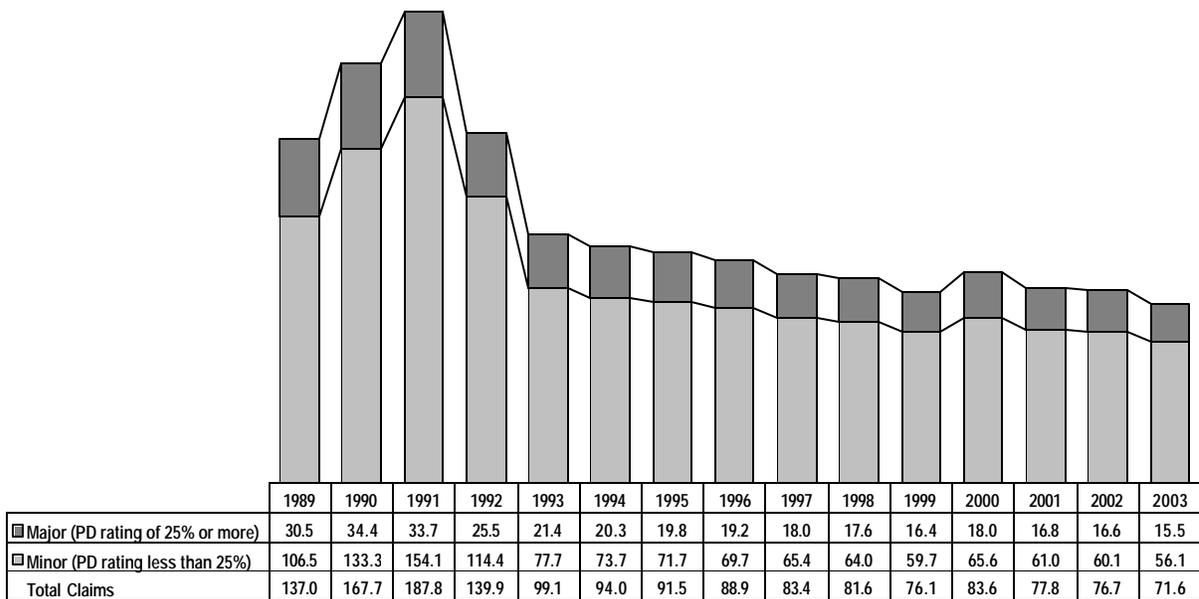
In 1995, the Commission on Health and Safety and Workers' Compensation (CHSWC) contracted with the Survey Research Center at University of California, Berkeley, to assess the impact of the workers' compensation reform legislation on the workers' compensation medical-legal evaluation process.

This ongoing study determined that during the 1990s, the cost of medical-legal examinations dramatically improved. As shown in the following discussions, this is due to reductions in all the factors that contribute to the total cost.

Permanent Disability Claims

The following chart displays the number of PPD claims during each calendar year since 1989. Through 1993, the WCIRB created these data series from Individual Case Report Records submitted as part of the Unit Statistical Report. Since that time, the series was discontinued, and estimates for 1994 and subsequent years are based on policy-year data adjusted to the calendar year and information on the frequency of all claims, including medical-only claims, that are still available on a calendar-year basis.

**PPD Claims at Insured Employers
(In thousands, by year of injury)**



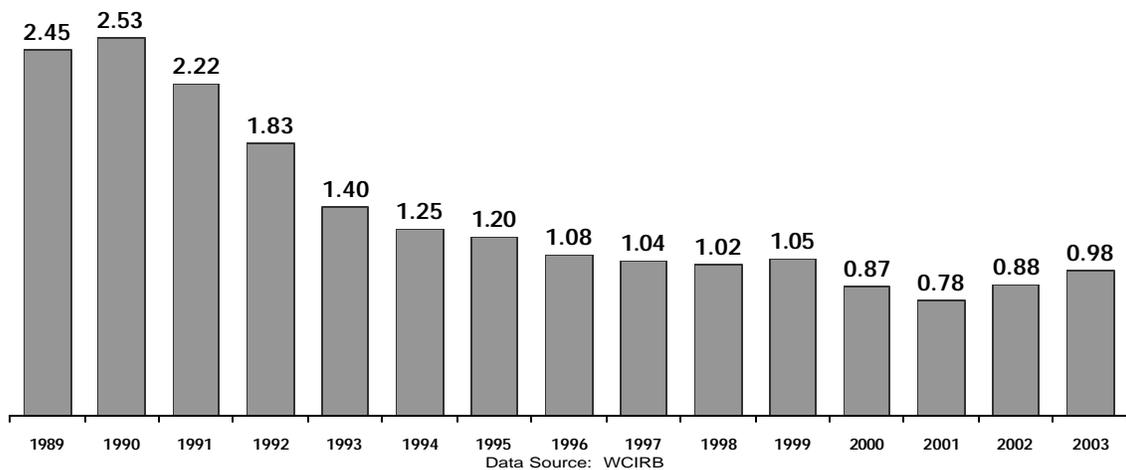
Data Source: WCIRB

Medical-Legal Examinations per Claim

The following chart illustrates the decline in the average number of medical-legal examinations per claim. An average of 2.45 claims in 1989 declined to 0.98 claims in 2003, representing a 60 percent decline. This decline is attributed to a series of reforms since 1989 and the impact of efforts against medical mills.

Reforms instituted in 1993 that advanced the role of the treating physician in the medical-legal process and granted the opinions of the treating physician a presumption of correctness were expected to reduce the average number of reports even further. Earlier CHSWC reports evaluating the treating physician presumption did not find that these reforms had significant effect on the average number of reports per claim.

**Medical-Legal Exams per Workers' Compensation Claim
(At 40 months from the beginning of the accident year)**



The change in the average number of examinations between 1993 and 1994 was almost entirely the result of improvements that occurred during the course of 1993 calendar-year claims. These results were based on smaller surveys done by the WCIRB when the claims were less mature. These later data involving a larger sample of surveyed claims suggest that the number of examinations per claim continued to decline after leveling off between 1993 and 1995. The number of reports seems to have stabilized at just slightly more than an average of one report per PPD claim between 1996 and 1999.

It is interesting to note that different regions of California are often thought to have different patterns of medical-legal reporting. The revisions to the WCIRB Permanent Disability Survey, undertaken at the recommendation of CHSWC and instituted for the 1997 accident year, explored new issues. A zip code field was added to analyze patterns in different regions.

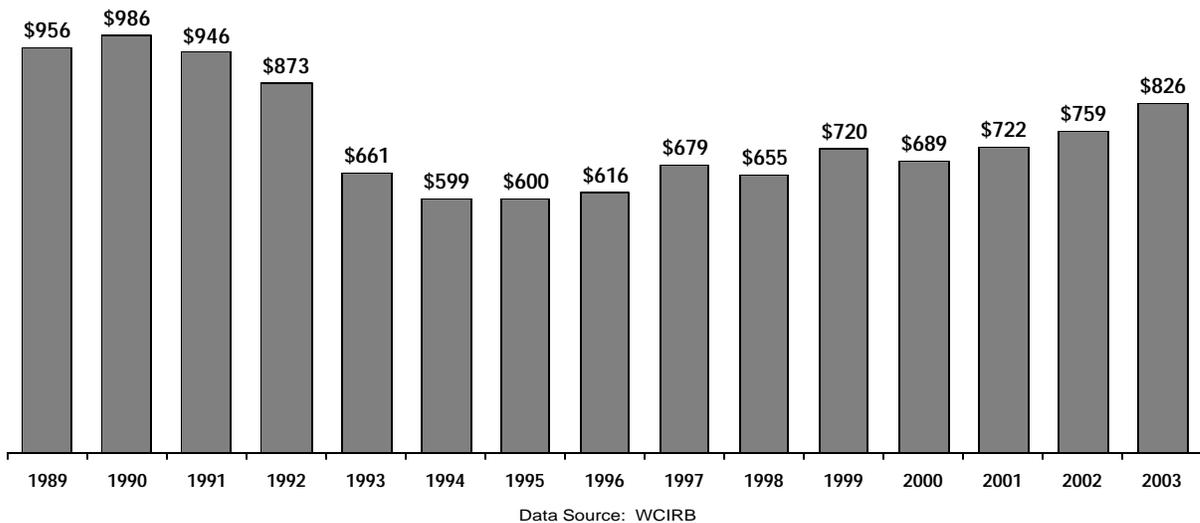
The following chart demonstrates that the frequency with which medical-legal reports were used between 1997 and 1999 was not, in fact, different across the State's major regions. However, as the number of reports continued to decline between 2000 and 2002, the differences between regions became more pronounced. It should be noted that to compare across all four available years, the period 1997 to 2003, which values claims at shorter maturity than the 40 months used in the above chart, is used. As a result, the frequency is somewhat less.

Cost per Medical-Legal Examination

There are two reasons why the average cost per medical examination has declined by 16 percent since its peak in 1990. First, substantial changes were made to the structure of the Medical-Legal Fee Schedule that reduced the rates at which medical examinations are reimbursed. These restrictions were introduced in early 1993 and enforced after the start of August 1993.

Second, during this period, the average cost of medical examinations was also being affected by the frequency of psychiatric examinations. On average, psychiatric examinations are the most expensive examinations by specialty of provider. The relative portion of all examinations that is made up of psychiatric examinations declined since hitting a high in 1990-1991, leading to a substantial improvement in the overall average cost per examination.

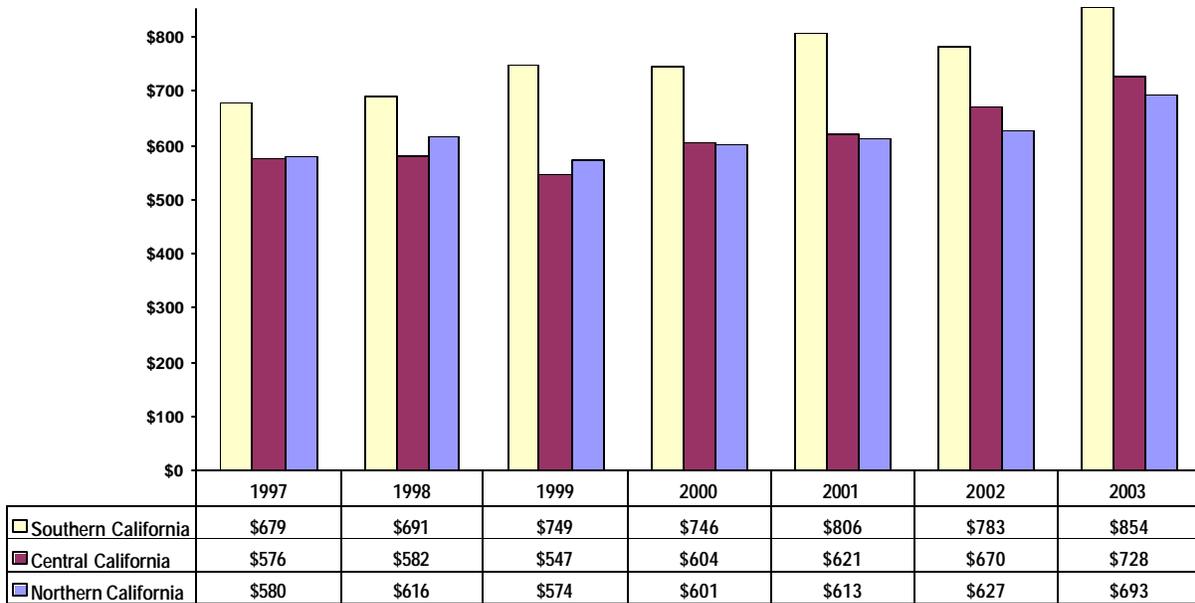
**Average Cost of Medical-Legal Exam
(Evaluated at 40 months of accident year)**



SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Since the mid-1990s, the average cost of a medical-legal report has increased by 38 percent, even though the reimbursement under the Official Medical Fee Schedule (OMFS) has remained unchanged since 1993. The revised PD Survey by the WCIRB includes additional questions that reveal some of the potential causes of this increase in costs. The changes indicate various types of fee schedule classifications as well as geography. However, issues for injury years before 1997 cannot be examined because the WCIRB survey revision of that year prevents comparisons.

**Average Cost of Medical-Legal Exam by Region
(at 34 months after beginning of accident year)**



Data Source: WCIRB

The survey data show that, on average, medical-legal reports done in Southern California have always been substantially more expensive. Increases in the average cost are being driven by claims in Southern California.

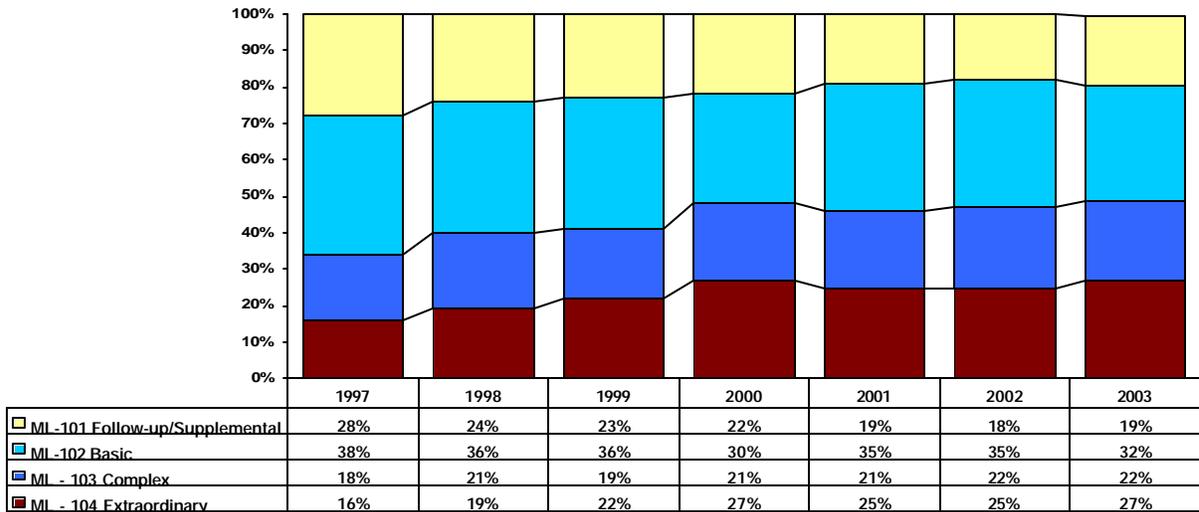
Further analysis indicates that the cost driver for California and its Southern region trends is not the price paid for specific types of examinations. Rather, the mix of codes under which the reports are billed has changed to include a higher percentage of the most complex and expensive examinations and fewer of the least expensive type. The following table shows the cost and description from the Medical-Legal Fee Schedule.

Evaluation Type	Amount Presumed Reasonable
ML-101 Follow-up/ Supplemental	\$250
ML-102 Basic	\$500
ML-103 Complex	\$750
ML-104 Extraordinary	\$200/hour

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

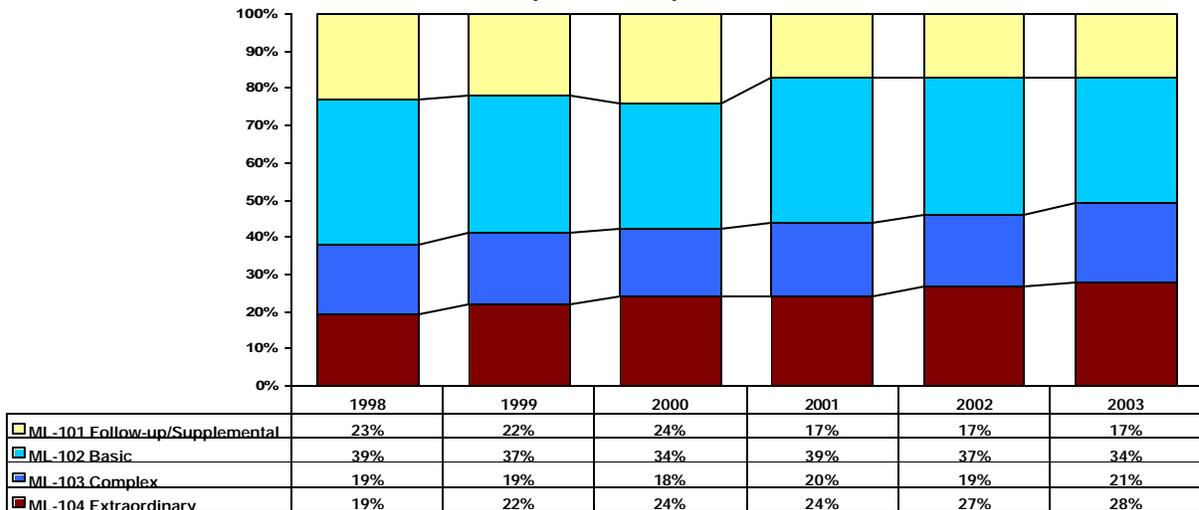
The following two charts indicate that the distribution of examinations both in Southern California and California as a whole has shifted away from ML-101 examinations to include a higher percentage of ML-104 examinations with “Extraordinary” complexity. At the same time, the average cost within each examination type did not exhibit a trend.

**Distribution of Medical-Legal Exam by Type
(Southern California)**



Data Source: WCIRB

**Distribution of Medical-Legal Exam by Type
(California)**

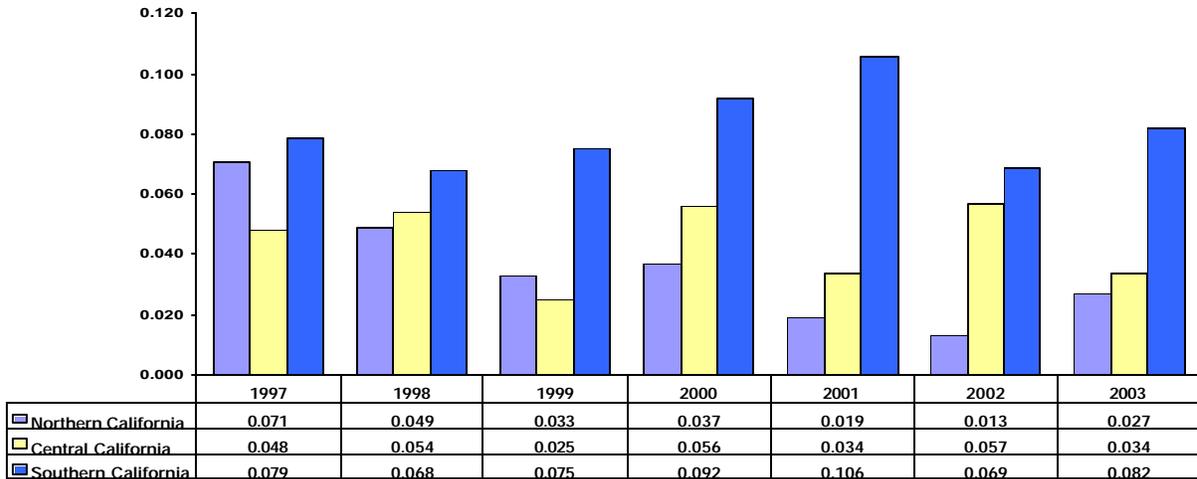


Data Source: WCIRB

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Another possible explanation for the differing trends in the average cost per report and the increasing frequency of the most complex examinations in Southern California is that psychiatric evaluations are more common in Southern California, although there has been a decrease in frequency for this region of 23 percent between 2001 and 2003. Psychiatric examinations are nearly always billed under the ML-104 code that is the most expensive.

Average Number of Psychiatric Exams per PPD Claim by Region



Data Source: WCIRB

Medical-Legal Cost Calculation

Total medical-legal costs are calculated by multiplying the number of PPD claims by the average number of medical-legal examinations per claim and by the average cost per medical-legal examination.

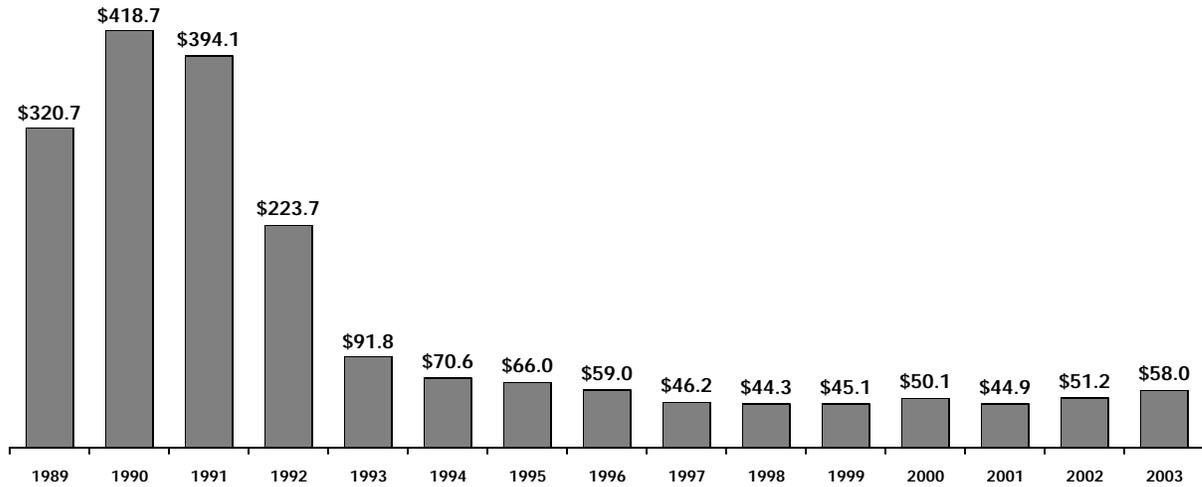
Total Medical-Legal Cost

$$\text{Number of PPD Claims} * \text{Average Number of Exams/Claim} * \text{Average Cost/Exam}$$

Medical-Legal Costs

During the 1990s, the cost of medical-legal examinations improved dramatically. For the insured community, the total cost of medical-legal examinations performed on PPD claims by 40 months after the beginning of the accident year has declined from a high of \$419 million in 1990 to an estimated \$58.0 million for injuries occurring in 2003. This is an 86 percent decline since the beginning of the decade.

**Medical-Legal Costs on PPD Claims at Insured Employers
(In Million\$, 40 months after beginning of accident year)**



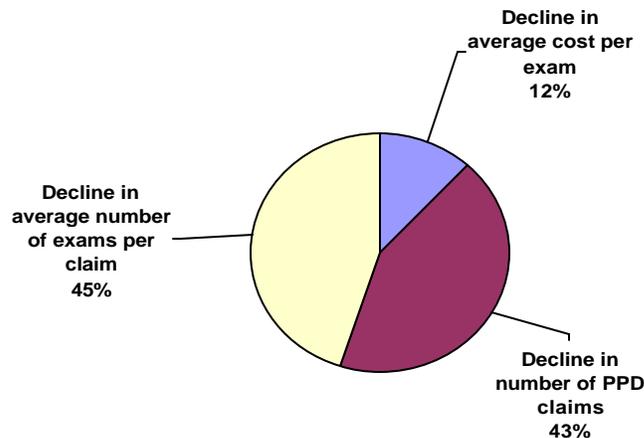
Data Source: WCIRB

Sources of Improvement in Medical-Legal Costs

The decline in total medical-legal costs for insurers reflects improvements in all components of the cost structure during the 1990s. As discussed in the previous sections, this substantial decline in total medical-legal costs for insurers results from significant decreases in all of the components of the cost structure. The following chart shows how the cost savings break down by component since the beginning of the decade: About half (45 percent) of the cost savings is due to improvements in the medical-legal process that reduced the number of examinations performed per claim.

- Twelve percent of the improvement is due to changes to the medical-legal fee schedule and treatment of psychiatric claims that reduced the average cost of examinations per claim.
- Forty-three percent of the improvement is a result of the overall decline in the frequency of reported PPD claims.

Sources of Savings. Medical-Legal Costs on PPD Claims 1990-2003



Data Source: WCIRB

INJURIES AND ILLNESSES

Workplace safety and health is of primary importance and the shared goal of all Californians. Ongoing cooperative efforts among workers, employers, employer and labor organizations, government agencies, health and safety professionals, independent researchers and the public have resulted in significant reductions in workplace injuries, illnesses and deaths.

This section will discuss the numbers and incidence rates of occupational injuries and illnesses, injuries and illnesses by occupation and other factors, and the efforts to prevent occupational injuries and illnesses. Also included is an overview of the requirements and methods to record and report occupational injuries and illnesses in the United States and California.

Where data are available, comparisons among private industry, state government and local government are also included.

Occupational Injuries, Illnesses and Fatalities

The numbers of occupational injuries, illnesses and fatalities in the private sector (private industry) and the public sector (state and local government) for the past several years are displayed and discussed in this subsection.

Please note that lost-work-time occupational injury and illness cases involve days away from work, job transfer, or days of restricted work activity, and that days-away-from-work cases involve days away from work, whether or not there is also job transfer or restricted work activity.

NASI estimated that there were 125.9 million workers covered by workers' compensation in the United States in 2004, including 14.7 million in California.

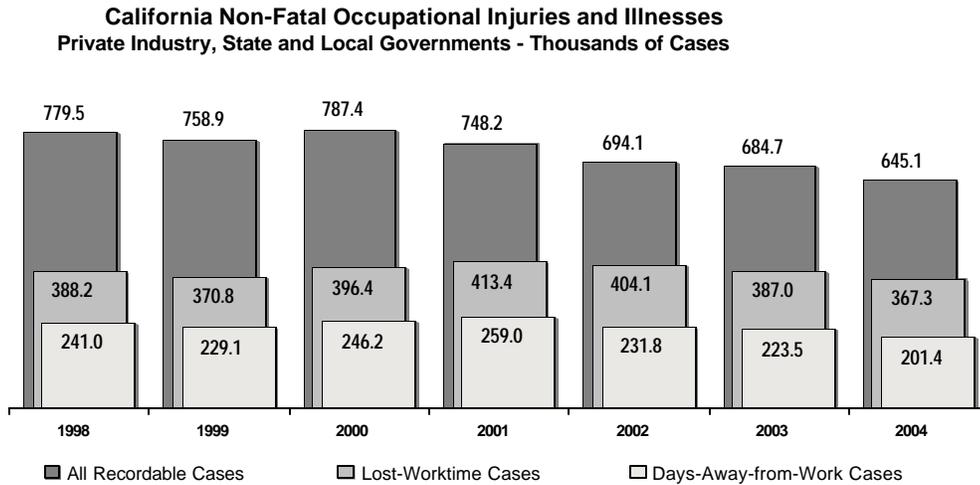
Public and Private Sectors

Non-Fatal Occupational Injuries and Illnesses

The following chart shows occupational injuries and illnesses in California's private industry, state government and local government.

Occupational injuries and illnesses in California have decreased noticeably in the past few years.

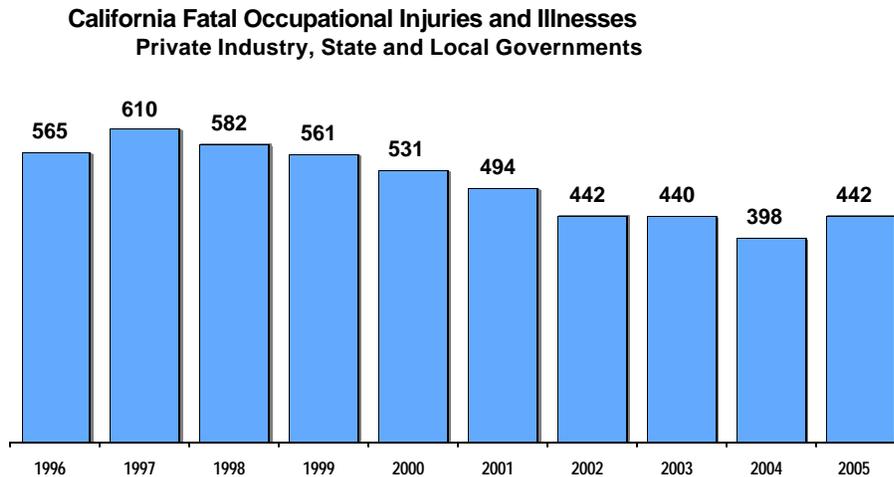
As shown in the following chart, the number of recordable occupational injury and illness cases, the number of lost-work-time cases, and the number of cases with days away from work have all declined from 2000 to 2004.



Source: DIR Division of Labor Statistics and Research

Fatal Occupational Injuries and Illnesses

Fatal occupational injuries and illnesses in California's private sector have also decreased significantly as shown in the chart below. Fatal occupational injuries and illnesses in California declined by 35 percent from 1997 to 2004 and then increased by 11 percent from 2004 to 2005.



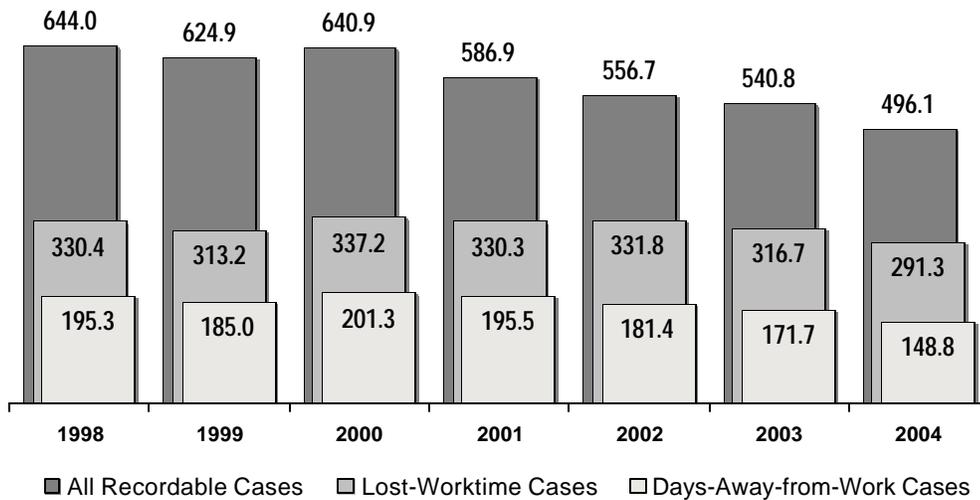
Source: DIR Division of Labor Statistics and Research

Private Sector

Non-Fatal Occupational Injuries and Illnesses

Occupational injuries and illnesses in California's private industry have also decreased noticeably in the past few years. The total number of recordable injury and illness cases dropped by 22.6 percent, the number of lost-work-time cases declined by 13.6 percent, and the number with days away from work decreased by 26.1 percent from 2000 to 2004.

**California Non-Fatal Occupational Injuries and Illnesses
Private Industry - Thousands of Cases**

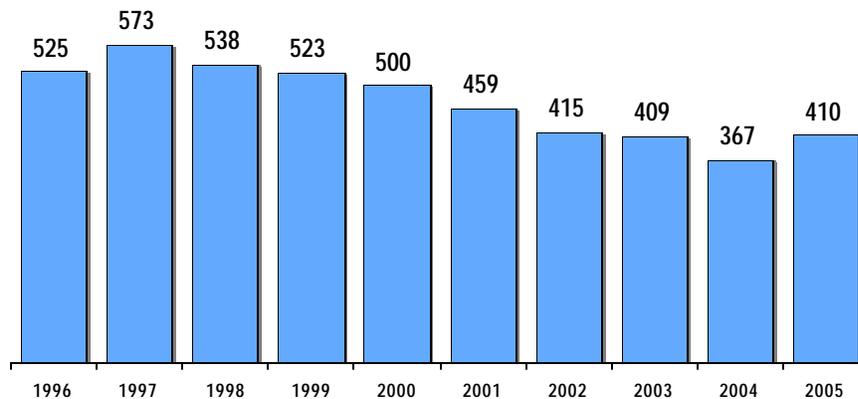


Source: DIR Division of Labor Statistics and Research

Fatal Occupational Injuries and Illnesses

From 1997 to 2004, fatal injuries decreased by 36.0 percent, then grew by 11.7 percent from 2004 to 2005.

**California Fatal Occupational Injuries and Illnesses
Private Industry**



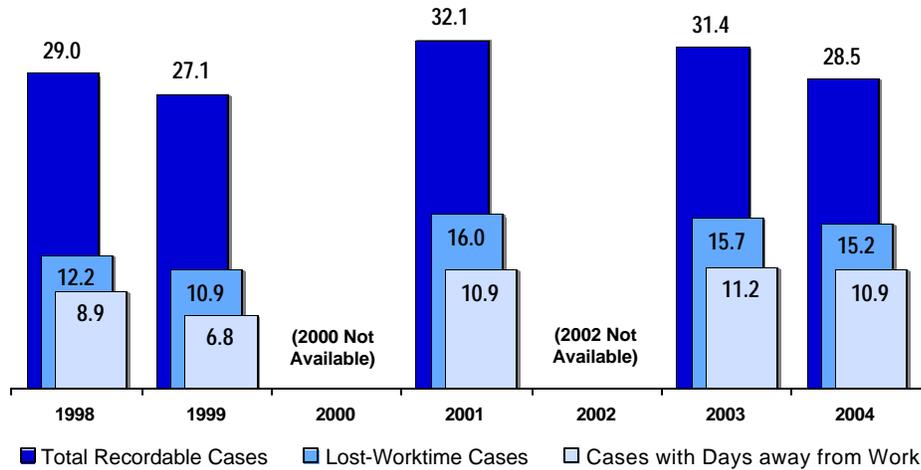
Source: DIR Division of Labor Statistics and Research

Public Sector – State Government

Non-Fatal Occupational Injuries and Illnesses

In contrast to private industry, the numbers of non-fatal occupational injuries and illnesses in state government have not changed appreciably in the past seven years, as shown on the following chart. It should be noted that many state and local government occupations are high risk, such as law enforcement, fire fighting, rescue and other public safety operations. However, between 2003 and 2004, the total number of cases declined by about 9.0 percent.

**California Non-Fatal Occupational Injuries and Illnesses
State Government - Thousands of Cases**

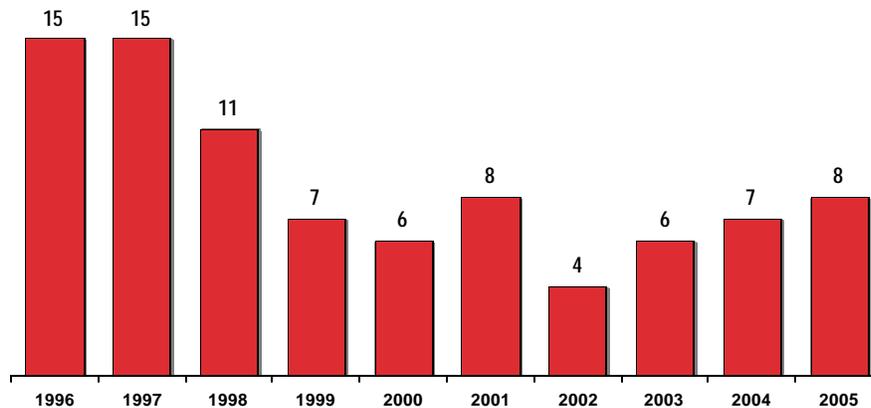


Source: DIR Division of Labor Statistics and Research

Fatal Occupational Injuries and Illnesses

Fatal occupational injuries and illnesses in the California state government have decreased since the mid-1990s. The number of annual fatalities from 1996 to 1999 averaged 12.0, while from 2000 to 2005, the annual average was 6.5, as shown on the following chart.

**California Fatal Occupational Injuries and Illnesses
State Government**



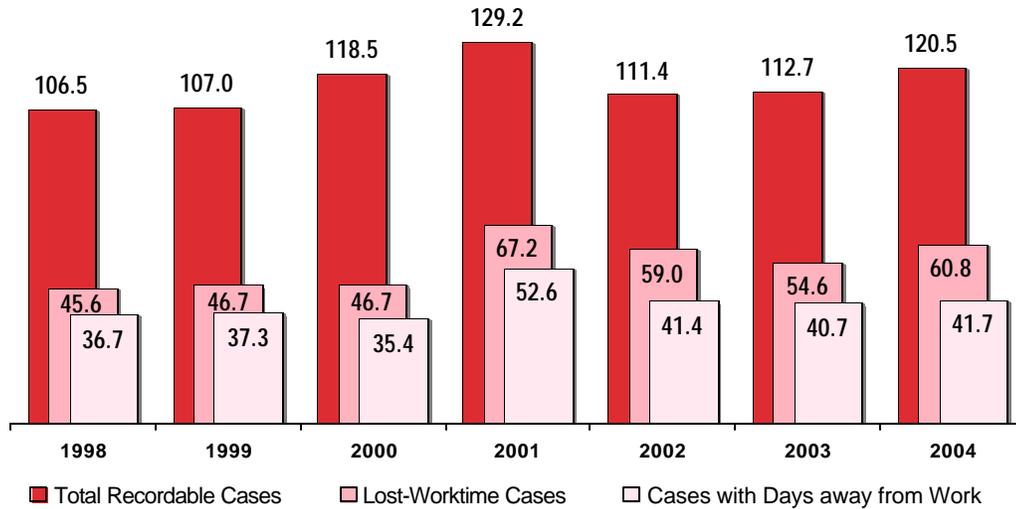
Source: DIR Division of Labor Statistics and Research

Public Sector - Local Government

Non-Fatal Occupational Injuries and Illnesses

The number of non-fatal occupational injuries and illnesses in local governments increased from 1998 to 2004.

**California Non-Fatal Occupational Injuries and Illnesses
Local Government - Thousands of Cases**

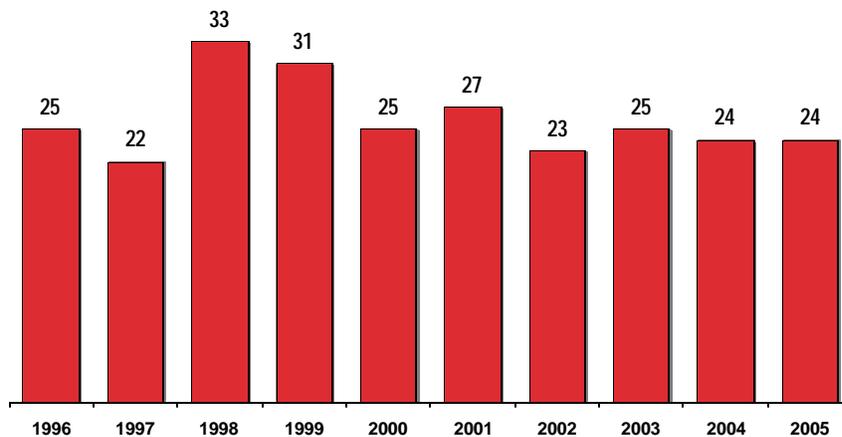


Source: DIR Division of Labor Statistics and Research

Fatal Occupational Injuries and Illnesses

The number of fatal occupational injuries and illnesses in California's local governments from 1996 to 1999 averaged 27.8, while from 2000 to 2004, the annual average was 24.8.

**California Fatal Occupational Injuries and Illness
Local Government**



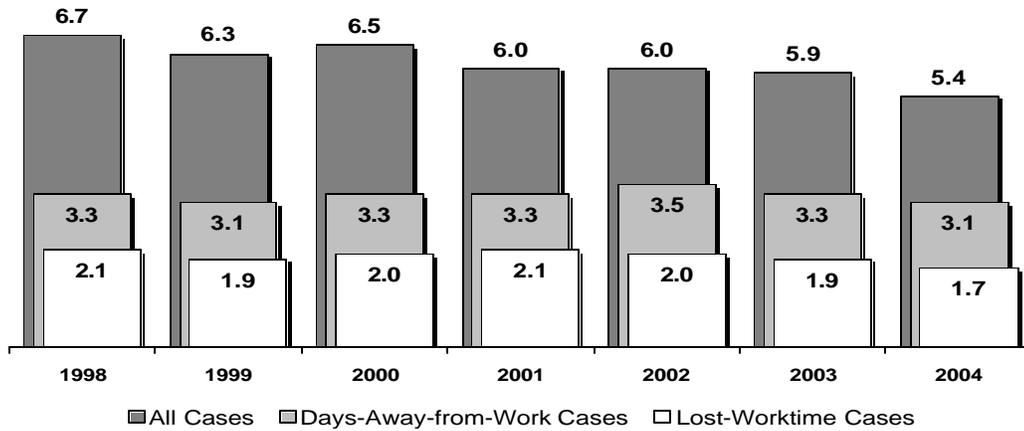
Source: DIR Division of Labor Statistics and Research

Occupational Injury and Illness Incidence Rates

Public and Private Sectors

From 1998 to 2004, incidence rates for all cases and lost-work-time cases in California declined, while the incidence rate for days-away-from-work cases remained relatively the same.

California Occupational Injury and Illness Incidence Rates
(Cases per 100 Full-Time Employees)
Private Industry, State and Local Governments

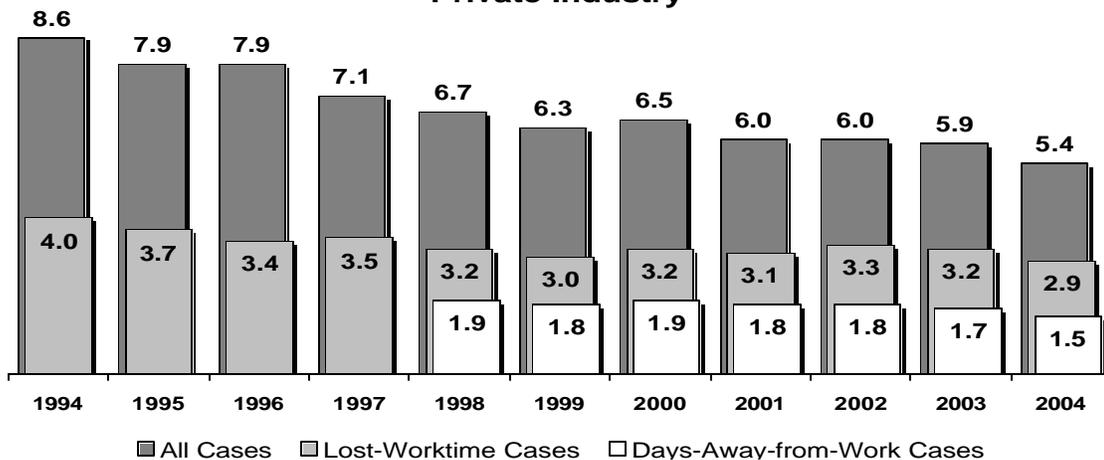


Source: DIR Division of Labor Statistics and Research

Private Sector

From 1994 to 2004, the occupational injury and illness incidence rate for all cases in California's private industry declined from 8.6 to 5.4, a decrease of 37.2 percent, while the incidence rate for lost-time cases dropped from 4.0 to 2.9, a decrease of 27.5 percent.

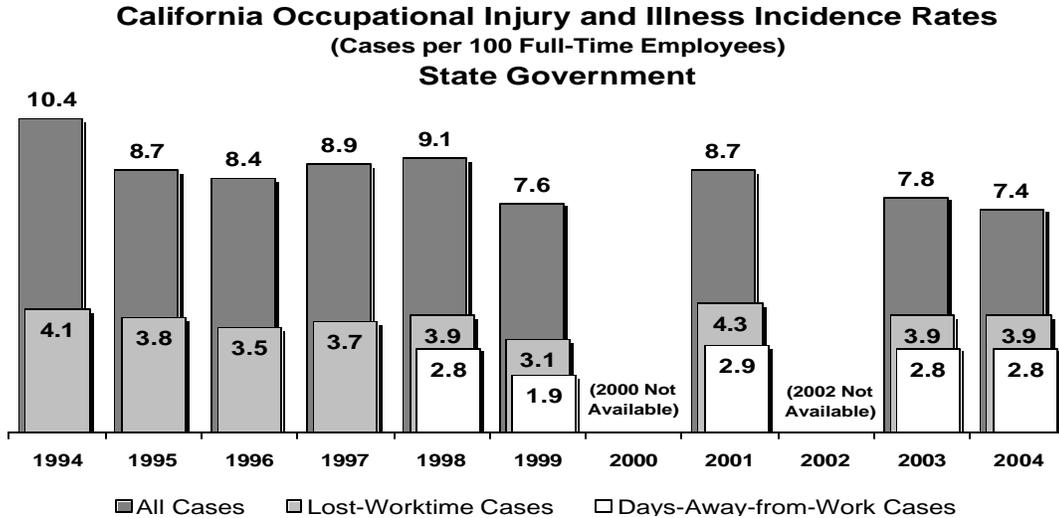
California Occupational Injury and Illness Incidence Rates
(Cases per 100 Full-Time Employees)
Private Industry



Source: DIR Division of Labor Statistics and Research

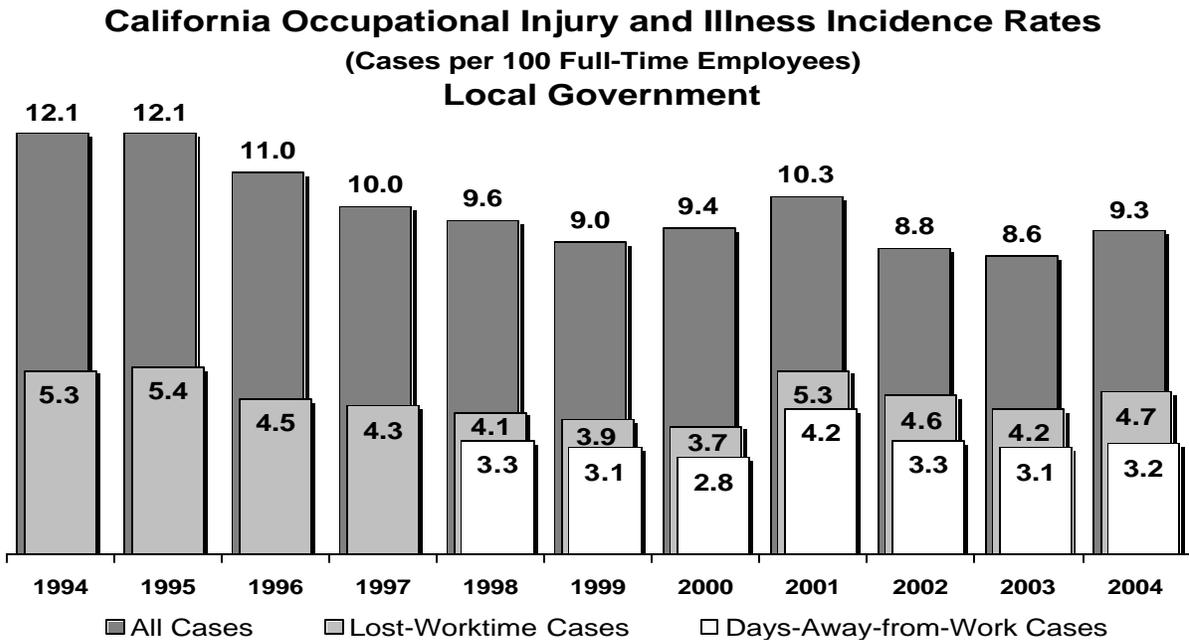
Public Sector - State Government

The California state government occupational injury and illness incidence rates have shown a decline between 1994 and 2004.



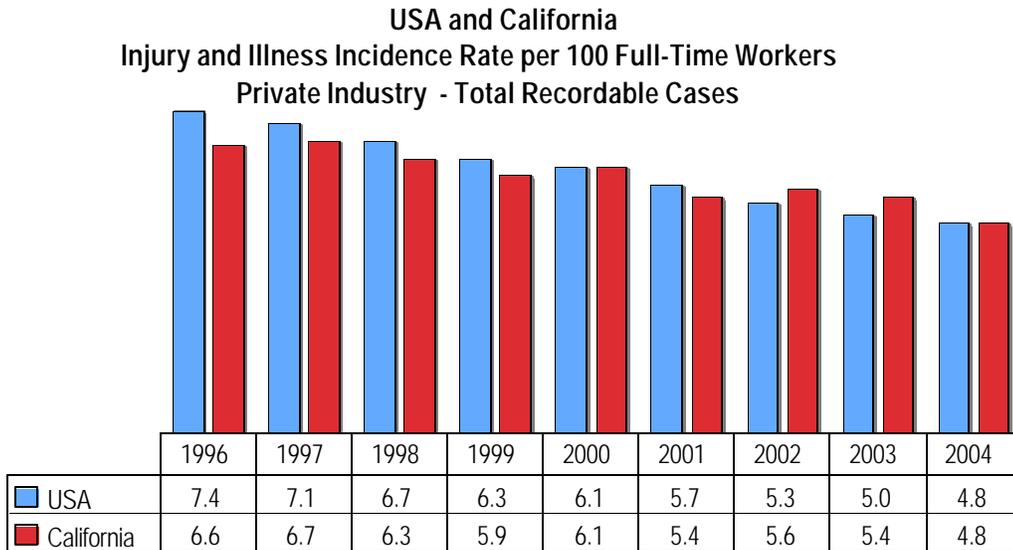
Public Sector – Local Government

Unlike the injury and illness rates for California state government whose incidence rates have been generally declining for the past decade, the local government occupational injury and illness incidence rates decreased from 1994 to 1999, increased through 2001, decreased through 2003, and then increased again in 2004.



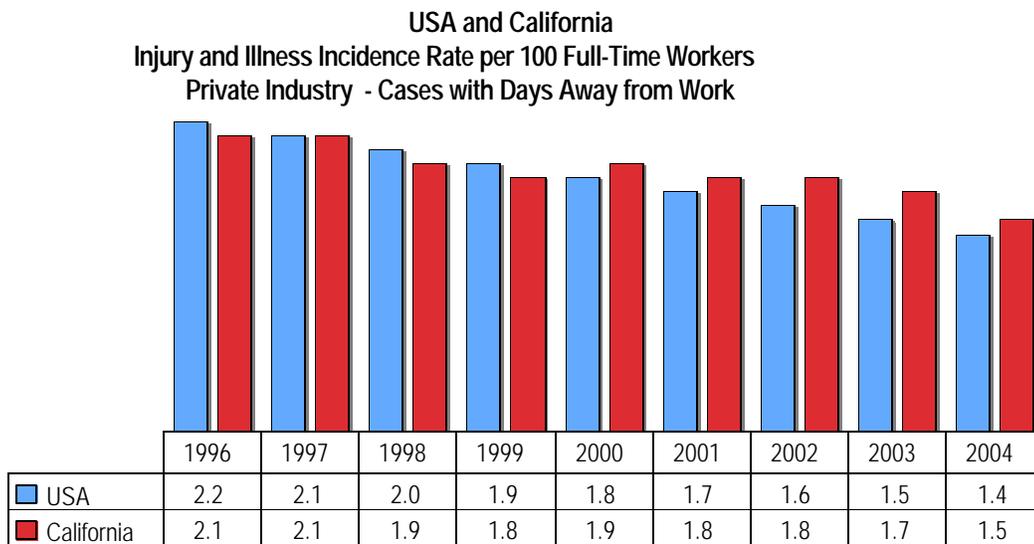
United States and California Incidence Rates: A Comparison

Both the United States and California have experienced a decrease in the occupational injury and illness incidence rates from 1996 through 2004. During that time, the United States incidence rate dropped by 35.1 percent, while the California rate declined by 27.3 percent.



Source: US Department of Labor, Bureau of Labor Statistics

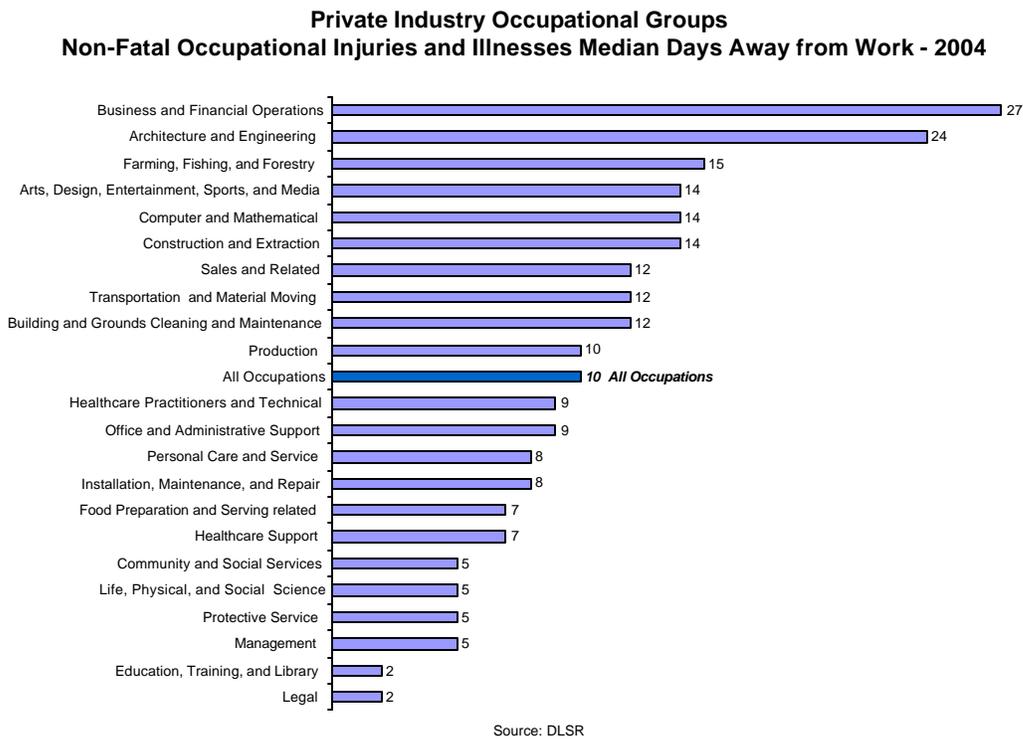
The incidence rate of occupational injury and illness days-away-from-work cases also declined in the United States and California from 1996 through 2004. During that period of time, the rate for the United States decreased by 35.0 percent while the California rate dropped by 27.0 percent



Source: US Department of Labor, Bureau of Labor Statistics

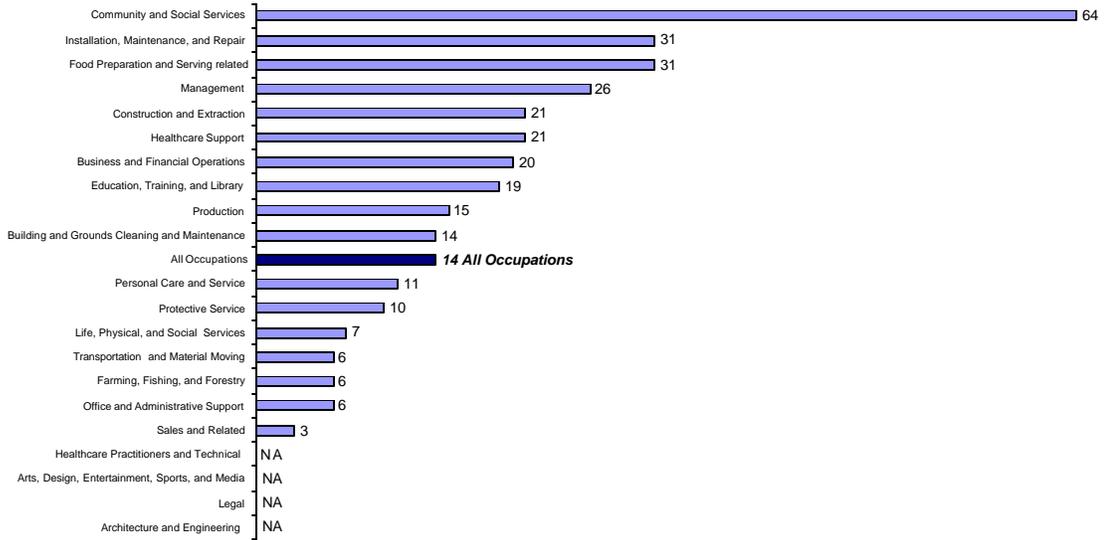
Characteristics of California Occupational Injuries and Illnesses

This section compares incidence rates by industry in 1995 with those in 2004 and also illustrates the days-away-from-work incidence rates by industry. Not only have the overall California occupational injury and illness incidence rates declined, but the incidence rates in major industries also have declined. The following charts compare days-away-from-work incidence rates in 1995 and 2004 by type of major industry including state and local government.

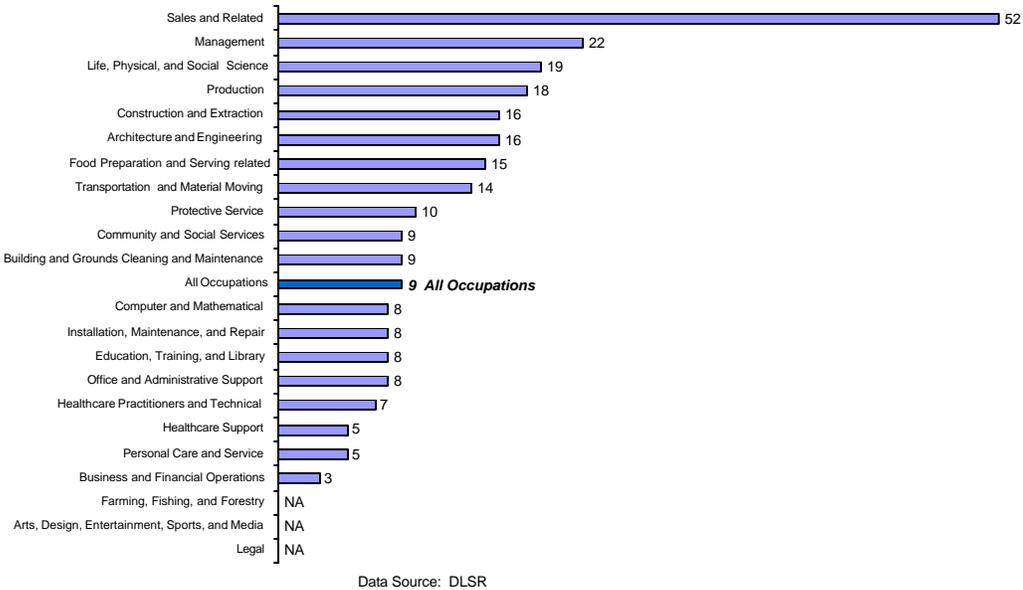


SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

**Major Occupational Groups by Median Days Away from Work - State, 2004.
(Non-fatal injuries and illnesses)**



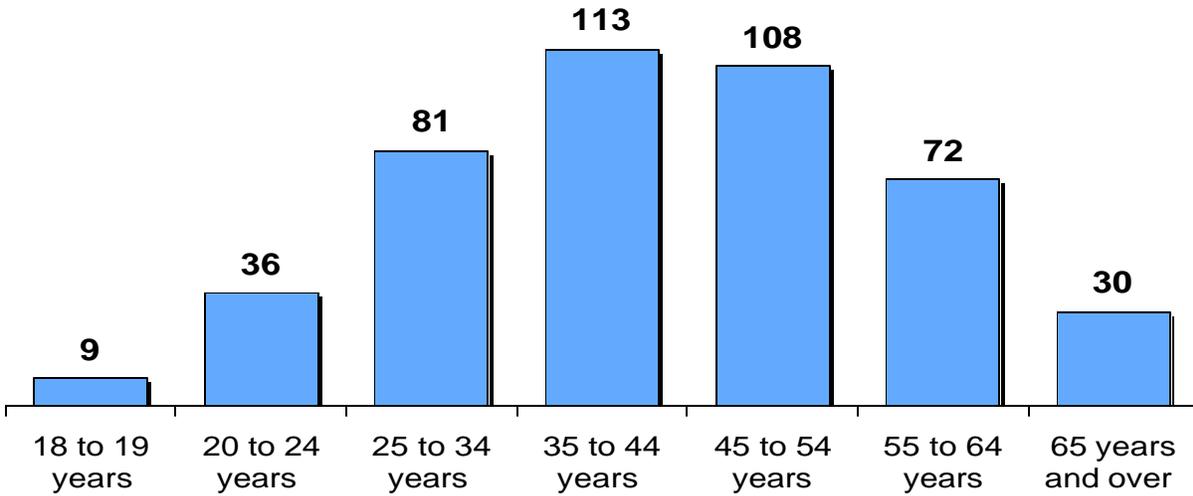
**Local Government Occupational Groups
Non-Fatal Occupational Injuries and Illnesses Median Days Away from Work - 2004**



Characteristics of California Fatal Occupational Injuries and Illnesses

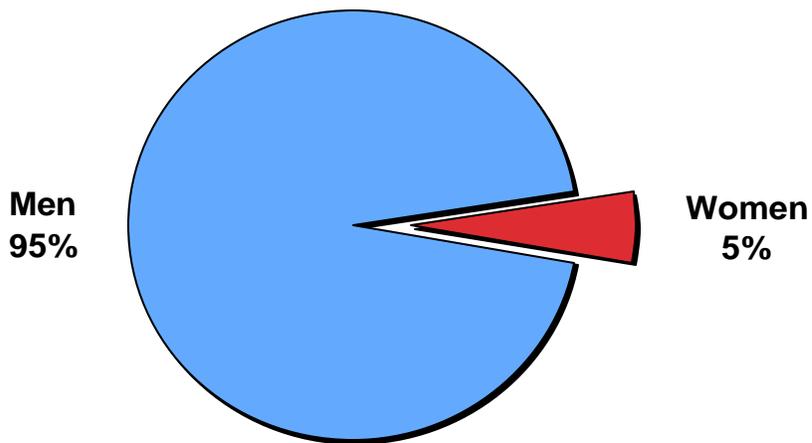
The following charts illustrate various characteristics of fatal occupational injuries and illnesses in 2005 in California's private industry and federal, state and local governments.

California Fatal Occupational Injuries and Illnesses by Age of Worker - 2005



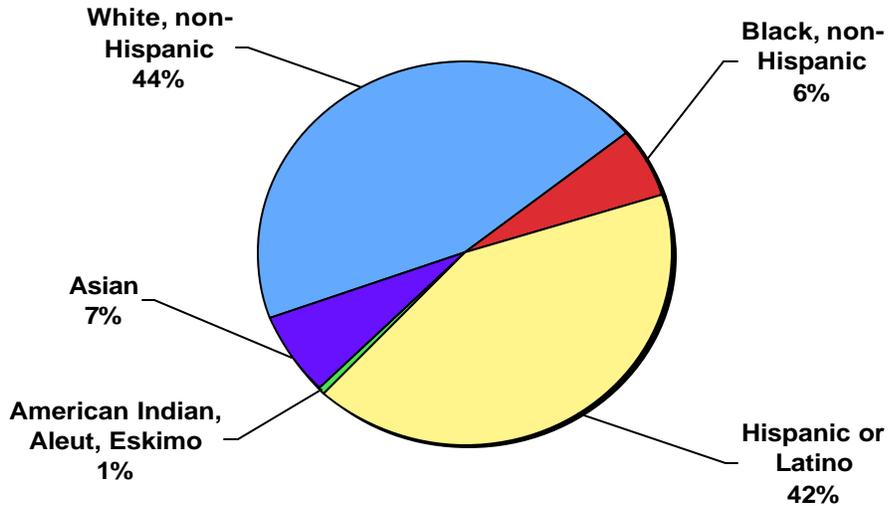
Source: DLSR

California Fatal Occupational Injuries and Illnesses by Gender - 2005

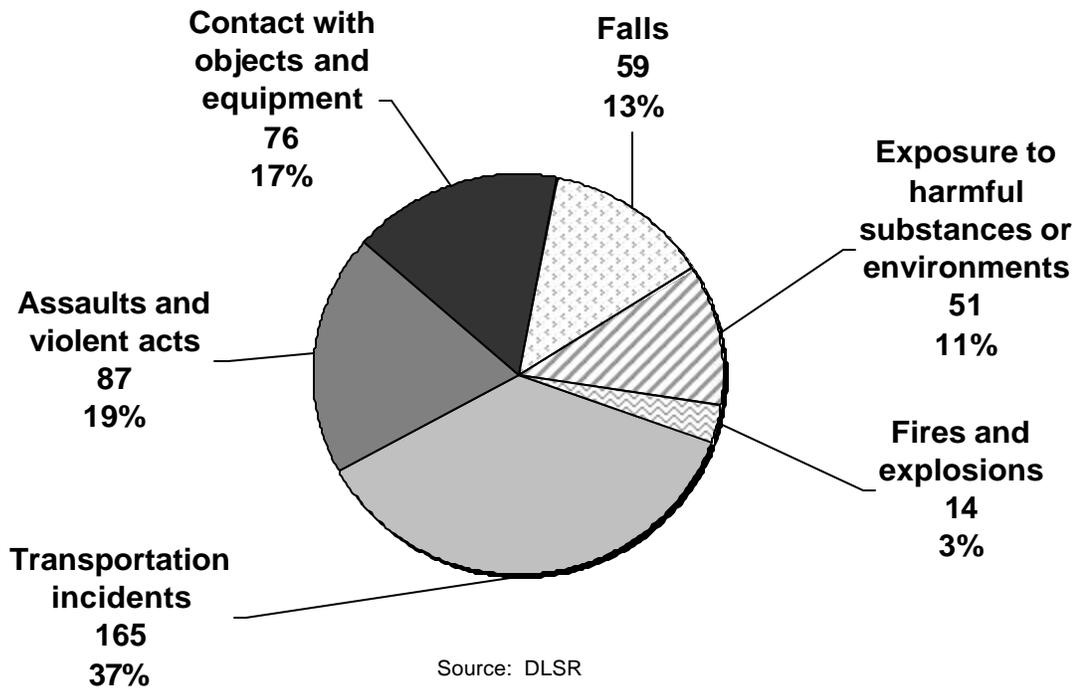


Source: DLSR

California Fatal Occupational Injuries and Illnesses by Race or Ethnic Origin - 2005



California Fatal Occupational Injuries and Illnesses by Event or Exposure - 2005



Profile of Occupational Injury and Illness Statistics

California and the Nation

Data for the following analyses, except where noted, were derived from the Department of Industrial Relations (DIR) Division of Labor Statistics and Research (DLSR), from the United States Department of Labor (DOL) Bureau of Labor Statistics (BLS), and from the California Workers' Compensation Institute (CWCI).

Incidence Rates

- California's most recent work injury and illness statistics for 2004 indicate an injury and illness rate of 4.9 cases per 100 full-time employees in the private sector in 2004. This is a 48 percent decline from the 1990 peak level of 9.4 and an estimated 8.6 percent decrease from the previous year's figures.
- The trend in California mirrors a national trend. DOL figures for private employers show that from 1990 to 2004, the work injury and illness rate across the United States fell from 8.8 to 4.8 cases per 100 employees in the private sector. The reduction in the number of incidences of job injuries is likely due to various factors including a greater emphasis on job safety, the improving economy since the early 1990s, and the shift from manufacturing toward service jobs.
- Data from the Western region states, Alaska, Arizona, California, Hawaii, Nevada, Oregon and Washington, indicate that California's 2004 private-industry rate of 4.9 for non-occupational injuries and illnesses is the second lowest.³ Arizona had the lowest incidence rate of 4.5 in 2004 was Arizona, and Hawaii had the second-lowest incidence rate.

Duration

- Days-away-from-work cases, including those that result in days away from work with or without a job transfer or restriction, dropped from 2.2 to 1.5 cases per 100 full-time employees from 1995 to 2004 in the private sector. This also mirrors the national trend with the number of days-away-from-work cases falling from 2.5 to 1.4 cases in the national private sector with a similar decline as that of California.
- In the "State Report Cards for Workers' Compensation," published by the Work Loss Data Institute, the Institute reported that the median days away from work in California and New York is 8 days, compared with the national average of 6 days.⁴

Industry Data

- In 2004, injury and illness incidence rates varied greatly between private industries ranging from 2.4 injuries/illnesses per 100 full-time workers in the financial activities sector to 6.5 in construction. California's private industry rates for total cases were higher than the national rates in every major industry division, except for manufacturing and for natural resources and mining.
- The private industry total case rate for non-fatal injuries decreased between 2003 and 2004 from 5.4 to 4.9, and the rate for the public sector (state and local government) increased from 8.4 in 2003 to 8.9 in 2004.
- Over the decade 1995-2004, the number of fatal injuries declined by about 35.6 percent, from 646 to 416. From 2003 to 2004, the number of fatal injuries decreased by 8.7 percent. The highest number of fatal injuries was in construction, followed by trade, transportation and utilities.
- In private industry, the top ten occupations with the most non-fatal injuries and illnesses in descending order are: laborers and freight, stock, and material movers; retail sales persons; construction laborers; carpenters; janitors and cleaners, except maids and housekeeping cleaners; truck drivers, light or delivery services; truck drivers, heavy and tractor-trailer; farm workers and laborers, crop, nursery, and greenhouse; nursing aides, orderlies, and attendants; and registered nurses.

³ The comparisons of industry rates have not been adjusted for industry mix within each state.

⁴ http://www.odg-disability.com/pr_repsrc.htm

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

- In California state government, the top ten occupations with the most non-fatal injuries and illnesses are: correctional officers and jailers; psychiatric aides; police and sheriff's patrol officers; maintenance and repair workers, general; janitors and cleaners, except maids and housekeeping cleaners; office clerks, general; fire fighters; executive secretaries and administrative assistants; first-line supervisors/managers of fire fighting and prevention workers.
- In the local government, the top ten occupations with the most non-fatal injuries and illnesses are: police and sheriff's patrol officers; janitors and cleaners except maids and house-keeping cleaners; fire fighters; maintenance and repair workers, general; teacher assistants, elementary school teachers, except special education; bus drivers, transit and inter-city; landscaping and grounds-keeping workers; correctional officers and jailers.
- Truck drivers, heavy and tractor-trailer, construction laborers, farm workers, ground maintenance workers and police officers were the occupations with the most number of fatal injuries in 2004. Transportation and material-moving occupations and construction and extraction occupations accounted for nearly half of the fatal injuries in 2005. Transportation accidents were the number one cause of fatal injuries accounting for about 40 percent of fatal injuries in 2004 and 37 percent in 2005.
- Assaults and violent acts accounted for about 12.5 percent of fatal injuries in 2004 and 19 percent in 2005, and are a major cause of fatalities among: sales and related occupations; transportation and material-moving occupations; protective-service occupations; installation, maintenance and repair, and management occupations.

Establishment Size and Type

- The lowest rate for the total recordable non-fatal cases in 2004 was experienced by the smallest employers. Employers with 1 to 10 employees and 11 to 49 employees had incidence rates of 1.7 and 4.0 cases, respectively, per 100 full-time employees. There was a 19 percent decrease in incidence rates for employers with 1 to 10 employees. For employers with 11 to 49 employees, there was a 13 percent decrease in incidence rates compared to 2003.
- Establishments with 250 to 999 and 1000 or more employees reported the highest rate of 6.8 and 6.6 cases per 100 full-time employees. In 2004, all establishments had a decrease in incidence rates compared to 2003.

Types of Injuries

- Some types of work injuries have declined since 1995 in the private sector, while others have increased. The number of sprains and strains continued to decline from 1995, but these injuries remain by far the most common type of work injury accounting for about 39 percent of days-away-from-work cases in the private sector. Cuts, lacerations, bruises, contusions, heat burns, carpal tunnel syndrome, tendonitis, chemical burns, and amputations have decreased from 1995-2004, with the biggest decrease, 69 percent, seen in tendonitis. From 1995 to 2004, the only injury categories that experienced an increase are multiple injuries.
- In the private sector, contact with objects and equipment was the leading cause of days away-from-work injuries, cited in about 27.2 percent of days-away-from-work cases. Overexertion was the second common cause of injury, accounting for about 21 percent of injuries.
- In California state government, the two main causes of injury were overexertion and contact with objects and equipment accounting for about 14.7 percent of days-away-from-work cases in 2004 for each cause of injury. In local government, the number one cause of injury was overexertion, accounting for 17.9 percent of days-away-from-work cases in 2004.
- The most frequently injured body part is the back, accounting for about 17.2 percent of the cases in state government and about 18.4 percent cases in local government. In the private sector, back injuries account for 22 percent of non-fatal cases.

Demographics

- Over the period from 1995 to 2004 in California, the number of days-away-from-work cases for women decreased by about 30 percent. Days-away-from-work cases for men decreased by about 33 percent.
- Between 1995 and 2004, the age groups in private industry (16 to 19, 20 to 24, 25 to 34, 35 to 44, 45 to 54, and 65 and over) experienced a decline. The biggest decline (21 percent) occurred among 25 to 34 year-old workers. The age group 55 to 64 experienced a 7 percent increase in its numbers of days away from work.
- In 2004, out of 416 fatalities, approximately 95 percent were male and 5 percent were female. Some age group categories – 20 to 24 years, 25 to 34 years, 35 to 44 years, and 45 to 54 years – experienced a decline in fatal injuries between 2003 and 2004, while others – 18 to 19 years, 55 to 64 and 65 years and over – experienced an increase. The biggest decline (33 percent) was seen in the 20 to 24 years age group and the biggest increase (200 percent) in the 18 to 19 years age group. The 35 to 44 years age group experienced a slight decline of 2 percent.
- The highest number of fatalities in 2004 by race or ethnic origin categories was experienced by “White, non-Hispanic” followed by “Hispanic or Latino,” accounting for 45 percent and 41 percent of the fatalities respectively. From 2003 to 2004, fatal injuries increased by 13 percent (from 20 to 23 cases) for the “Black, non-Hispanic” and by 5 percent for the “Hispanic or Latino (from 161 to 169).” Since 2003, fatal injuries for the “White, non-Hispanic” group decreased 22 percent, and fatal injuries for the “Asian” category slightly decreased by 3 percent (from 31 to 30 cases).

Occupational Injury and Illness Reporting

Occupational injury and illness information is the responsibility of the BLS within the United States DOL and the DLSR within the California DIR. Occupational injuries and illnesses are recorded and reported by California employers through several national surveys administered by the DOL with the assistance of the DIR.

OSHA Reporting and Recording Requirements

The United States Occupational Safety and Health Act of 1970 (OSH Act) requires covered employers to prepare and maintain records of occupational injuries and illnesses. It provides specific recording and reporting requirements that comprise the framework for the nationwide occupational safety and health recording system. The Occupational Safety and Health Administration (OSHA) in the DOL administers the OSH Act recordkeeping system.

Although there are exemptions for some employers on recording of injuries, all California employers must report injuries to the DLSR. Every employer must also report any serious occupational injuries, illnesses or deaths to California OSHA within the DIR.

The data assist employers, employees and compliance officers in analyzing the safety and health environment at the employer's establishment and are the source of information for the BLS “Annual Survey of Occupational Injuries and Illnesses” and the OSHA “Occupational Injury and Illness Survey.”

BLS Annual Survey of Occupational Injuries and Illnesses

To estimate the number of occupational injuries and illnesses in the United States, BLS established a nationwide annual survey of employers' occupational injuries and illnesses. The state-level statistics on non-fatal and fatal occupational injuries and illnesses are derived from this survey.

Non-Fatal Injuries and Illnesses

The BLS Annual Survey develops frequency counts and incidence rates by industry and also profiles worker and case characteristics of non-fatal workplace injuries and illnesses that result in lost work time. Each year, BLS collects employer reports from about 173,800 randomly selected private-industry establishments.

Fatal Injuries and Illnesses

The estimates of fatal injuries are compiled through the Census of Fatal Occupational Injuries (CFOI), which is part of the BLS occupational safety and health statistics program. CFOI uses diverse state and federal data sources to identify, verify, and profile fatal work injuries.

OSHA Occupational Injury and Illness Survey

Federal OSHA administers the annual "Occupational Injury and Illness Survey." OSHA utilizes this collection of employer-specific injury and illness data to improve its ability to identify and target agency interventions to those employers who have serious workplace problems.

For this survey, OSHA collects data from 80,000 non-construction establishments and from up to 15,000 construction establishments. DSLR sends the survey to about 16,000 randomly selected California employers including 800 from the public sector.

Occupational Injury and Illness Prevention Efforts

Efforts to prevent occupational injury and illness in California take many forms, but all are derived from cooperative efforts between the public and private sectors. This section describes consultation and compliance programs, health and safety standards, and education and outreach designed to prevent injuries and illnesses to improve worker health and safety.

Cal/OSHA Program

The Cal/OSHA Program is responsible for enforcing California laws and regulations pertaining to workplace safety and health and for providing assistance to employers and workers about workplace safety and health issues.

The Cal/OSHA Enforcement Unit conducts inspections of California workplaces based on worker complaints, accident reports and high hazard industries. There are 22 Cal/OSHA Enforcement Unit district offices located throughout the state of California. Specialized enforcement units, such as the Mining and Tunneling Unit and the High Hazard Enforcement Unit, augment the efforts of district offices in protecting California workers from workplace hazards in high hazard industries.

Other specialized units, such as the Crane Certifier Accreditation Unit, the Asbestos Contractors' Registration Unit, the Asbestos Consultant and Site Surveillance Technician Unit, and the Asbestos Trainers Approval Unit, are responsible for enforcing regulations pertaining to crane safety and prevention of asbestos exposure.

The Cal/OSHA Consultation Service provides assistance to employers and workers about workplace safety and health issues through on-site assistance, high hazard consultation and special emphasis programs, and develops educational materials on workplace safety and health topics.

Identification, Consultation and Compliance Programs

The 1993 reforms of the California workers' compensation system required Cal/OSHA to focus its consultative and compliance resources on "employers in high hazardous industries with the highest incidence of preventable occupational injuries and illnesses and workers' compensation losses."

High Hazard Employer Program

The High Hazard Employer Program (HHEP) is designed to:

- Identify employers in hazardous industries with the highest incidence of preventable occupational injuries and illnesses and workers' compensation losses.
- Offer and provide consultative assistance to these employers to eliminate preventable injuries and illnesses and workers' compensation losses.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

- Inspect those employers on a random basis to verify that they have made appropriate changes in their health and safety programs.
- Develop appropriate educational materials and model programs to aid employers in maintaining a safe and healthful workplace.

In 1999, the passage of AB 1655 gave the DIR the statutory authority to levy and collect assessments from employers to support the targeted inspection and consultation programs on an ongoing annual basis.

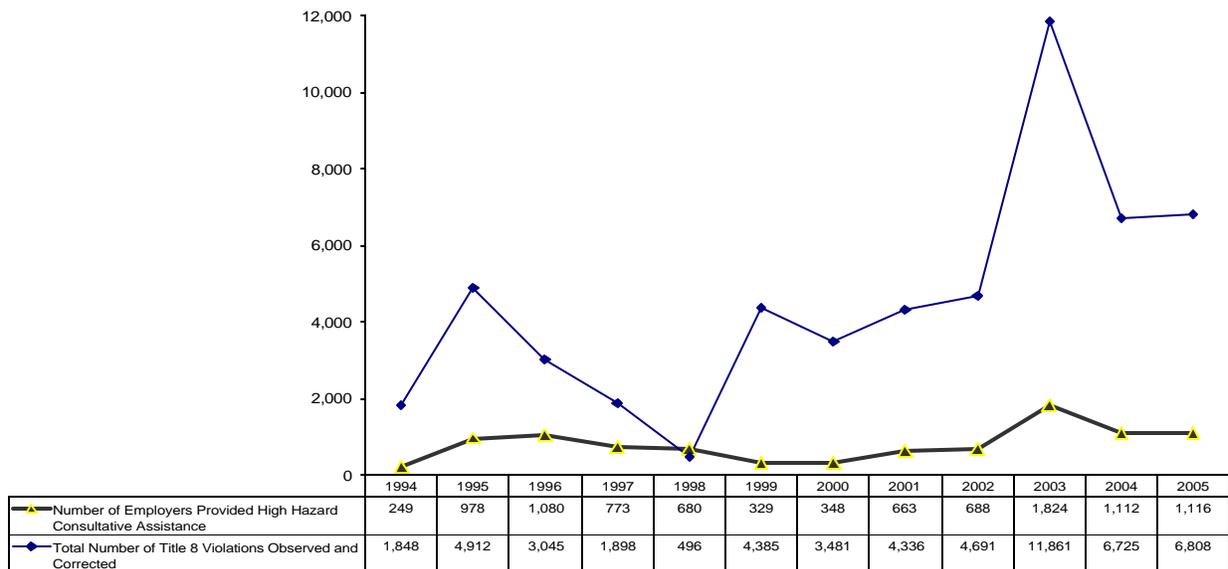
High Hazard Consultation Program

The Division of Occupational Safety and Health (DOSH) reports that in 2005, it provided on-site high hazard consultative assistance to 1,116 employers, as compared to 1,112 employers in 2004. During consultation with these employers, 6,808 Title 8 violations were observed and corrected as a result of the provision of consultative assistance.

Since 1994, 9,840 employers have been provided direct on-site consultative assistance, and 54,486 Title 8 violations have been observed and corrected. Of these violations, 41.4 percent were classified as "serious."

The following chart indicates the yearly number of consultations and violations observed and corrected during the years 1994 through 2005. It should be noted that effective 2002, the Safety and Health Inspection Projects (SHIPs) are included in the High Hazard Consultation Program figures.

High Hazard Consultation Program Production by Year



Data Source: Division of Occupational Safety and Health

High Hazard Consultation efficacy is measured by comparisons of employer lost and restricted workday data. Beginning in 2001, the Log 200 was replaced with the Log 300 as the source for lost and restricted workday data. The use of the Lost Work Day Case Incidence (LWDI) rate was transitioned and replaced with the Days Away, Restricted, or Transferred (DART) rate. Additionally, High Hazard Consultation uses experience modification (ex-mod) rates to measure efficacy.

High Hazard Enforcement Program

DOSH reports that in 2005, 505 employers underwent a high hazard enforcement inspection, up from 390 employers in 2004. During these inspections in 2005, 2,223 violations were observed and cited, whereas in 2004, 2,055 violations were observed and cited.

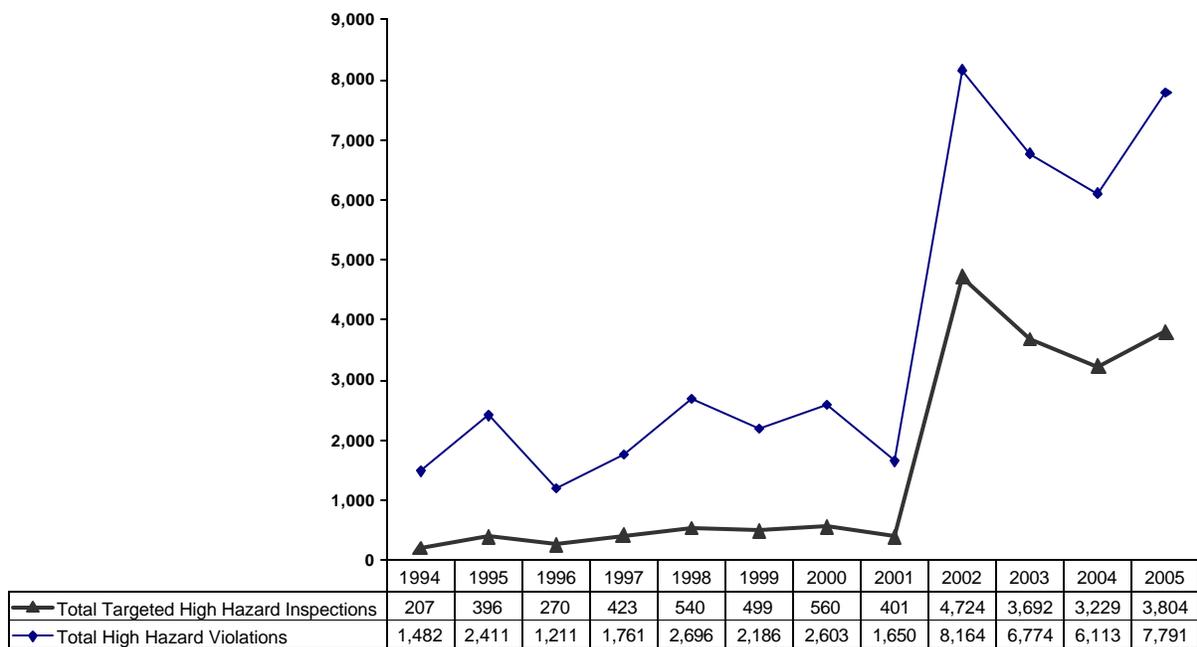
In addition, in 2005, 544 employers underwent an inspection as part of the Agricultural Safety and Health Inspection Project (ASHIP). Of these, 264 inspections were targeted. During these inspections, 949 violations were observed and cited.

In addition, in 2005, 2,755 employers underwent an inspection as part of the Construction Safety and Health Inspection Project (CSHIP). Of these, 868 inspections were targeted. During these inspections, 4,619 violations were observed and cited.

Since 1994, 19,255 employers have undergone a high hazard enforcement inspection, and 45,486 Title 8 violations have been observed and cited. Of these violations, 36.3 percent were classified as "serious."

The chart below indicates the yearly number of targeted inspections and violations observed and cited during the years 1994 through 2005. It should be noted that effective 2002, the Safety and Health Inspection Projects (SHIPs) are included in the High Hazard Enforcement Program figures.

High Hazard Enforcement Program Inspections and Violations



Data Source: Division of Occupational Safety and Health

The same lost and restricted workday methodology is used for both High Hazard Consultation and Enforcement. Efficacy is measured by comparisons of employer lost and restricted workday data. Beginning in 2001, the Log 200 was replaced with the Log 300 as the source for lost and restricted workday data. The use of the LWDI rate was transitioned and replaced with the DART rate.

For further information...

- Additional information can be obtained by visiting the Cal/OSHA website at www.dir.ca.gov/DOSH or by e-mailing your questions or requests to InfoCons@dir.ca.gov.

Safety Inspections

DOSH has two major units devoted to conducting inspections to protect the public from safety hazards:

- The Elevator, Ride and Tramway Unit conducts public safety inspections of elevators, amusement rides -- both portable and permanent -- and aerial passenger tramways or ski lifts.
- The Pressure Vessel Unit conducts public safety inspections of boilers (pressure vessels used to generate steam pressure by the application of heat), air and liquid storage tanks, and other types of pressure vessels.

Health and Safety Standards

The Occupational Safety and Health Standards Board (OSHSB), a seven-member body appointed by the Governor, is the standards-setting agency within the Cal/OSHA program.

The mission of OSHSB is to promote, adopt, and maintain reasonable and enforceable standards, at least as effective as federal standards, to ensure a safe and healthful workplace for California workers. OSHSB also has the responsibility to grant or deny applications for variances from adopted standards and respond to petitions for new or revised standards. The safety and health standards provide the basis for Cal/OSHA enforcement.

For further information...

 www.dir.ca.gov/OSHSB/oshsb.html

WORKERS' COMPENSATION SYSTEM PERFORMANCE

Introduction

CHSWC monitors the overall performance of the entire health and safety and workers' compensation system to determine whether it meets the State's Constitutional objective to "accomplish substantial justice in all cases expeditiously, inexpensively, and without encumbrance of any character."

In this section, CHSWC has attempted to provide performance measures to assist in evaluating the system impact on everyone, particularly workers and employers.

Administrative Operations

- DWC Opening Documents

- DWC Hearings

- DWC Decisions

- DWC Lien Decisions

- DWC Audits

Disability Evaluation Unit Data

Fraud Statistics

Carve-outs – Alternative Workers' Compensation Systems

Administrative Operations

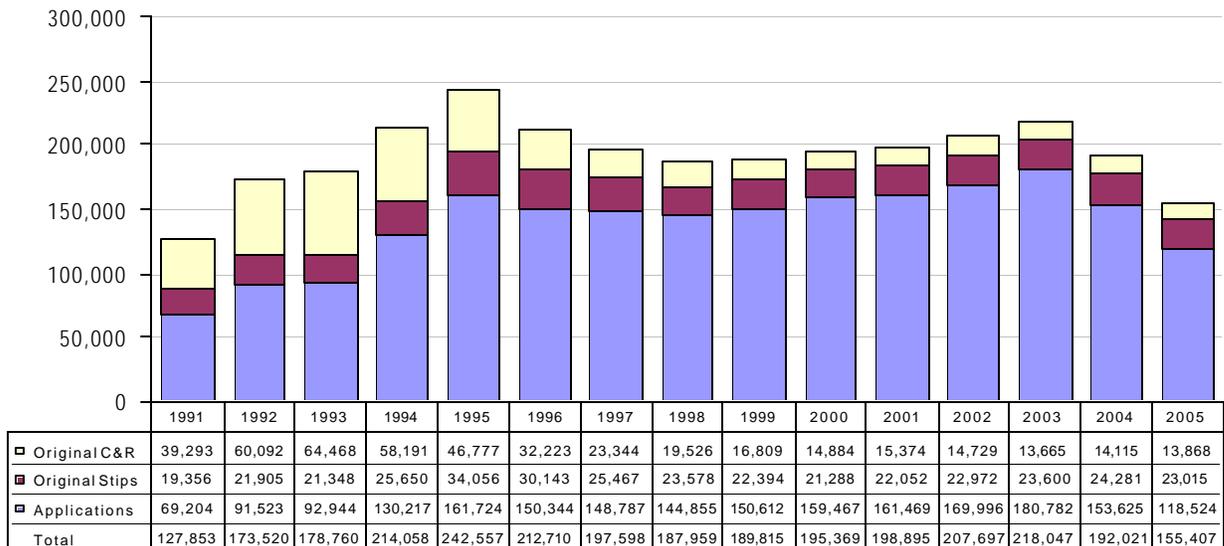
Division of Workers' Compensation Opening Documents

Three types of documents open a Workers' Compensation Appeals Board (WCAB) case. The following chart shows the numbers of Applications for Adjudication of Claim (Applications), Original Compromise and Releases (C&Rs), and Original Stipulations (Stips) received by the Division of Workers' Compensation (DWC).

The number of documents filed with the DWC to open a WCAB case on a workers' compensation claim fluctuated during the early- and mid-1990s, leveled off during the late 1990s, increased slightly between 2000 and 2003, and decreased between 2003 and 2005. The period from 1991 to 1992 shows growth in all categories of case-opening documents, followed by a year of leveling off between 1992 and 1993. The period from 1993 to 1995 is one of substantial increases in Applications, slight increases in Stips, and significant decreases in C&Rs. Through 2003, C&Rs continued to decline, while Applications increased. Between 2003 and 2005, Applications declined substantially, and C&Rs increased slightly. 2005 was the lowest year since 1992 for all three documents combined, with C&Rs nearing a historic low for the period defined.

Division of Workers' Compensation Opening Documents

DWC Opening Documents

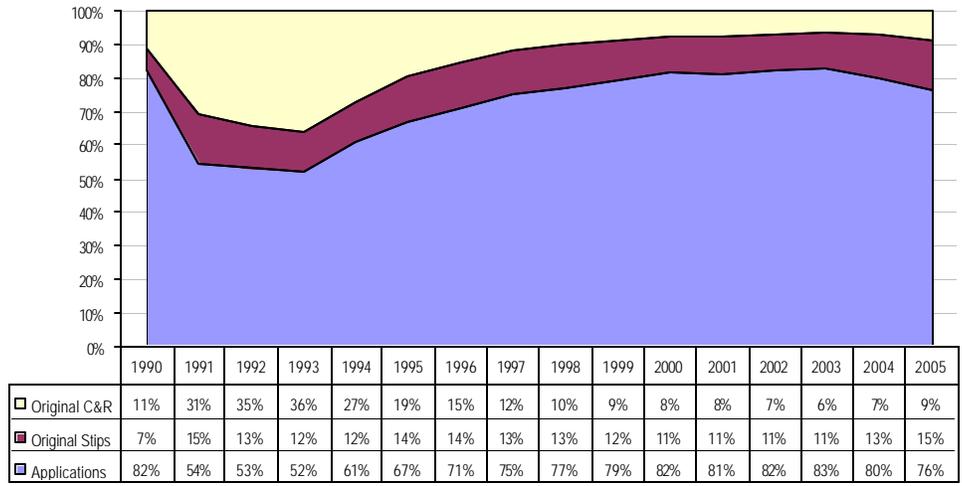


Source: DWC

Mix of DWC Opening Documents

As shown in the following graph, the proportion or mix of the types of case-opening documents received by the DWC varied during the 1990s. Applications initially dropped from about 80 percent of the total in 1990 to less than 60 percent in 1991, reflecting increases in both original Stips and C&Rs. The proportion of Applications was steady from 1991 to 1993, rising again through 2003, and declining slightly from 2003 to 2005. The proportion of original (case-opening) Stips and original C&Rs declined slightly from 1999 to 2003, and then increased from 2003 to 2005.

Percentage by Type of Opening Documents



Source: DWC

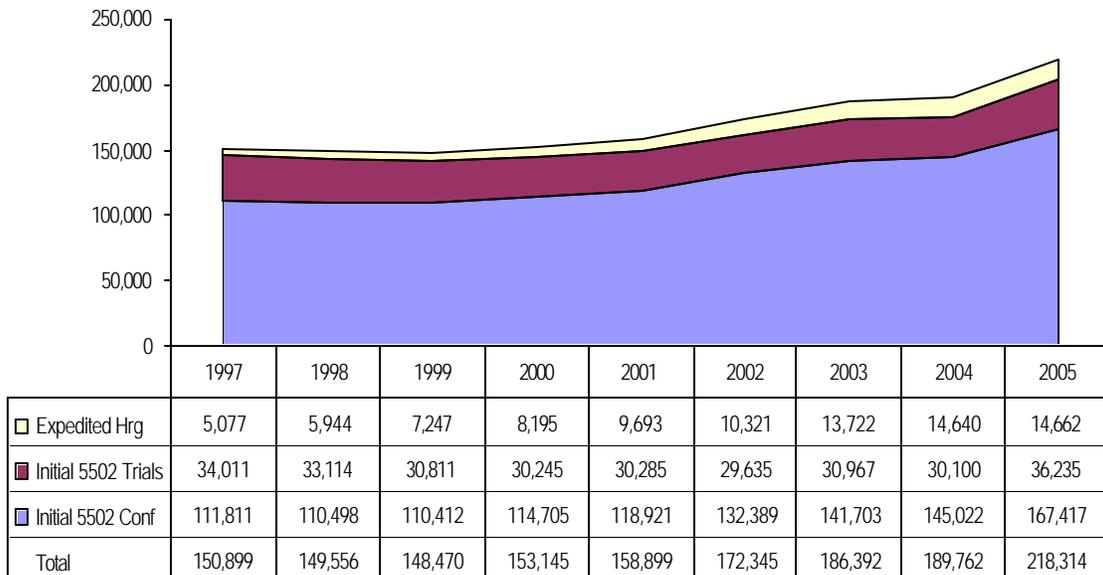
Division of Workers' Compensation Hearings

Numbers of Hearings

The graph below indicates the numbers of different types of hearings held in the DWC from 1997 through 2005. While the total number of hearings held increased by 44.7 percent from 1997 to 2005, the number of expedited hearings grew by about 189 percent during the same period.

Expedited hearings for certain cases, such as determination of medical necessity, may be requested pursuant to Labor Code Section 5502(b). Per Labor Code Section 5502(d), Initial 5502 Conferences are to be conducted in all other cases within 30 days of the receipt of a Declaration of Readiness (DR), and Initial 5502 Trials are to be held within 75 days of the receipt of a DR if the issues were not settled at the Initial 5502 Conference.

DWC Hearings Held

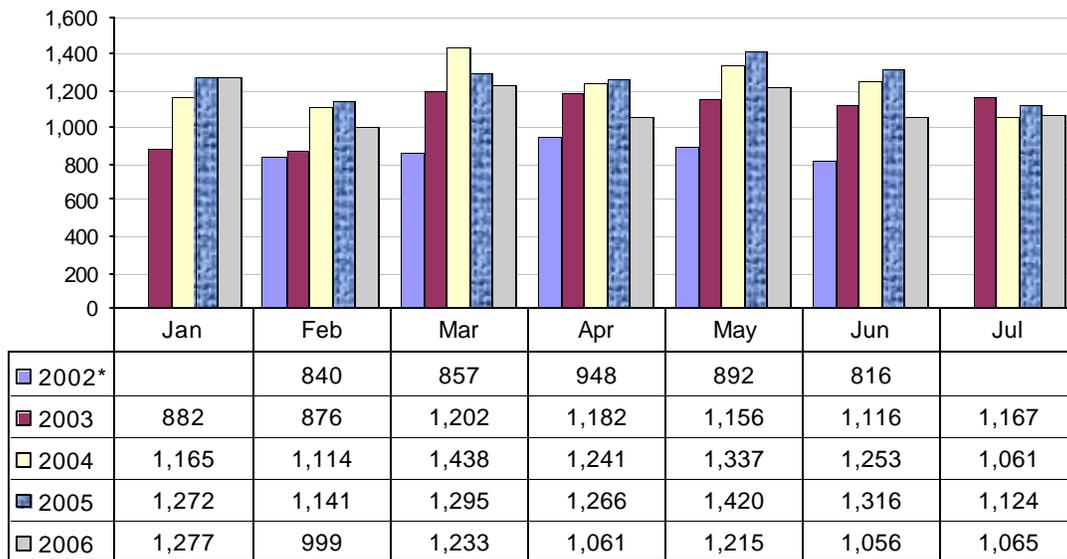


Source: DWC

DWC Expedited Hearings

The chart below compares the number of expedited hearings from January through July of 2002, 2003, 2004, 2005, and 2006. Except for July and March, the number of hearings during each month increased between 2002 and 2004. However between 2004 and 2005, the number of expedited hearings decreased all the months with the exception of January.

DWC Expedited Hearings Held
(Comparing January through July 2003-2006)



*Please note that data was not available for Jan and Jul 2002.

Data Source: DWC

Timeliness of Hearings

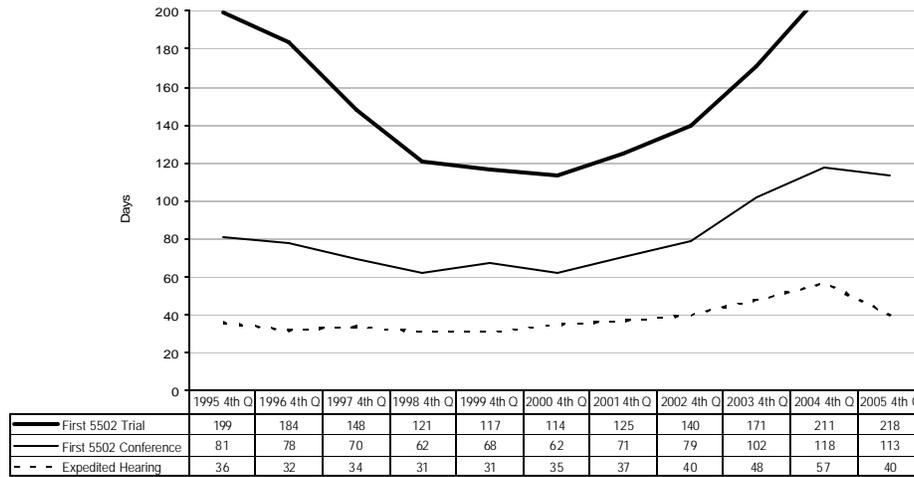
California Labor Code Section 5502 specifies the time limits for various types of hearings conducted by the DWC on WCAB cases. In general:

- A conference is required to be held within 30 days of the receipt of a request in the form of a DR.
- A trial must be held either within 60 days of the request or within 75 days if a settlement conference has not resolved the dispute.
- An expedited hearing must be held within 30 days of the receipt of the DR.

As the following chart shows, the average elapsed time from a request to a DWC hearing decreased in the mid- to late-1990s and then remained fairly constant. From 2000 to 2004, all of the average elapsed times have increased from the previous year's quarter, and none were within the statutory requirements. However, between 2004 and 2005, the average elapsed times for expedited hearings and conferences decreased while the average time from the request to a trial increased slightly.

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Elapsed Time in Days from Request to DWC Hearing



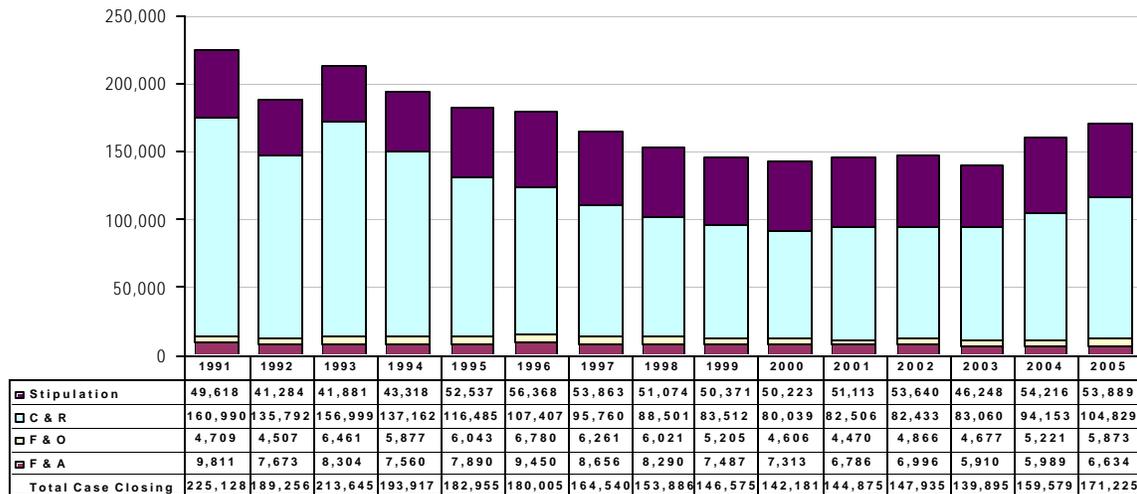
Source: DWC

Division of Workers' Compensation Decisions

DWC Case-Closing Decisions

The number of decisions made by the DWC that are considered to be case-closing have declined overall during the 1990s, with a slight increase from 2000 to 2002, followed by a decrease in 2003, and then an increase between 2003 and 2005.

DWC Case-Closing Decisions



Data Source: DWC

The preceding chart shows:

- The numbers of Findings and Awards (F&As) have shown an overall decline of 29.2 percent from 1990 to 2005.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

- Findings and Orders (F&Os) increased during the first part of the decade, declined to the original level in 2002, decreased slightly from 2002 to 2003, and increased again between 2003 and 2005.
- Stips were issued consistently throughout the decade. The numbers of Stips issued rose from 1990 to 1991, declined from 1991 to 1992, leveled off from 1992 to 1994, rose again in 1995 and 1996, remained stable through 2000, increased slightly in 2001 and 2002, decreased in 2003, and increased between 2003 and 2005.
- The use of C&Rs decreased by half during the 1990s and into the millennium. C&Rs declined steadily from 1993 through 2000, increased in 2001, remained stable in 2002 and 2003, and increased by 26.2 percent between 2003 and 2005.

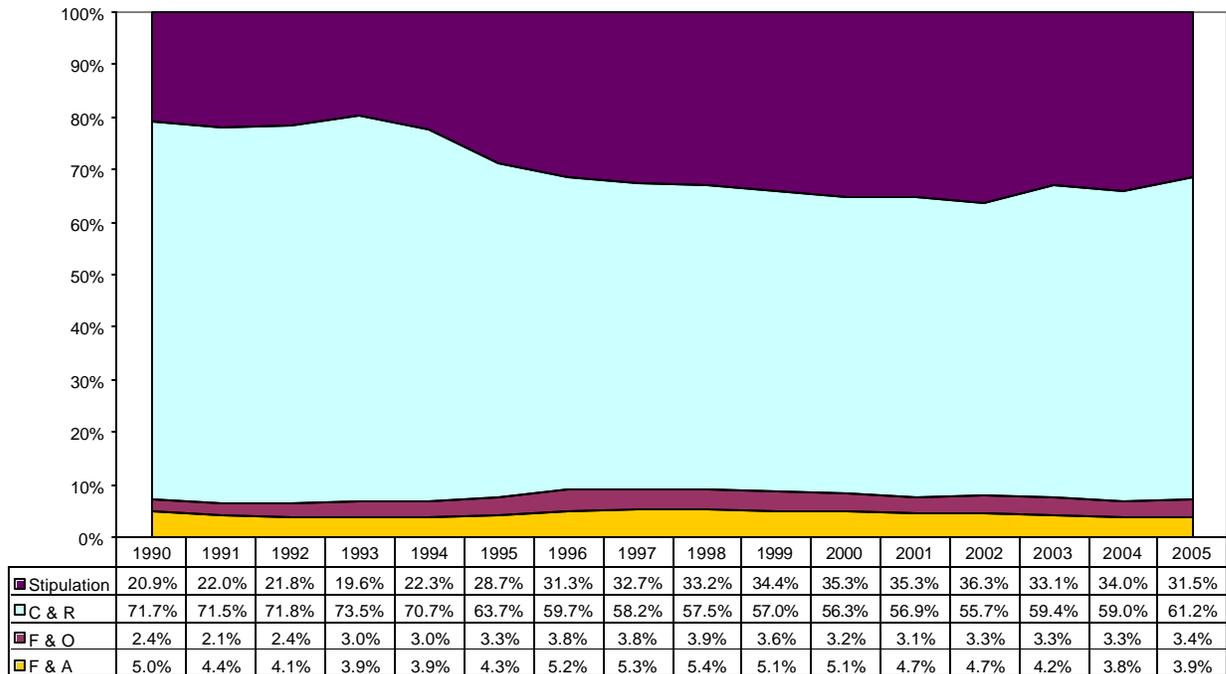
Mix of DWC Decisions

As shown on the charts on the previous page and this page, again, the vast majority of the case-closing decisions rendered during the 1990s were in the form of a Workers' Compensation Appeals Board (WCAB) judge's approval of Stips and C&Rs which were originally formulated by the case parties.

During the period from 1993 through the beginning of 2000 and beyond, the proportion of Stips rose, while the proportion of C&Rs declined. This reflects the large decrease in the issuance of C&Rs through the 1990s.

Only a small percentage of case-closing decisions evolved from an F&A or F&O issued by a WCAB judge after a hearing.

DWC Decisions: Percentage Distribution by Type of Decisions



Data Source: DWC

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

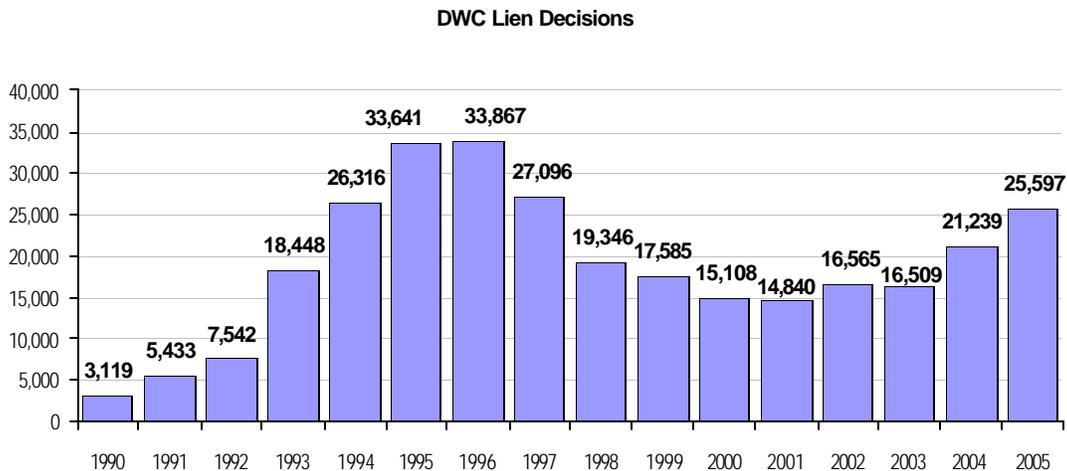
Division of Workers' Compensation Lien Decisions

The DWC has been dealing with a large backlog of liens filed on WCAB cases. Many of the liens have been for medical treatment and medical-legal reports. However, liens are also filed to obtain reimbursement for other expenses:

- The Employment Development Department (EDD) files liens to recover disability insurance indemnity and unemployment benefits paid to industrially injured workers.
- Attorneys have an implied lien during representation of an injured worker. If an attorney is substituted out of a case and seeks a fee, the attorney has to file a lien.
- District Attorneys file liens to recover spousal and/or child support ordered in marital dissolution proceedings of the injured worker.
- A landlord or grocer will occasionally claim a lien for living expenses of the injured worker or his/her dependents.
- Although relatively rare now, a private disability-insurance policy will occasionally file a lien on workers' compensation benefits on the theory that the proceeds from the benefits were used for living expenses of the injured worker.
- Some defendants will file liens in lieu of petitions for contribution where they have paid or are paying medical treatment costs to which another carrier's injury allegedly contributed.
- Liens are sometimes used to document recoverable (non-medical) costs, e.g., photocopying of medical records, interpreters' services and travel expenses.

Effective July 1, 2006, budget trailer bill language in AB 1806 repealed the lien filing fee in Labor Code Section 4903.05 and added Section 4903.6 to preclude the filing of frivolous liens at DWC district offices. Labor Code Section 4903.05, originally added by SB 228, had required that a filing fee of \$100 be charged for each initial lien filed by a medical provider, excluding the Veterans Administration, the Medi-Cal program, or public hospitals.

The following chart shows a large growth in decisions regarding liens filed on WCAB cases and a concomitant expenditure of DWC staff resources on the resolution of those liens.



Source: DWC

Division of Workers' Compensation Audit and Enforcement Program

Background

The 1989 California workers' compensation reform legislation established an audit function within the DWC to monitor the performance of workers' compensation insurers, self-insured employers, and third-party administrators to ensure that industrially injured workers are receiving proper benefits in a timely manner.

The purpose of the audit and enforcement function is to provide incentives for the prompt and accurate delivery of workers' compensation benefits to industrially injured workers and to identify and bring into compliance those insurers, third-party administrators, and self-insured employers who do not deliver benefits in a timely and accurate manner.

Assembly Bill 749 Changes to the Audit Program

AB 749, effective January 1, 2003, resulted in major changes to California workers' compensation law and mandated significant changes to the methodologies for file selection and assessment of penalties in the audit program.

Labor Code Sections 129 and 129.5 were amended to ensure that each audit unit will be audited at least once every five years and that good performers will be rewarded. A profile audit review (PAR) of every audit subject will be done at least every five years. Any audit subject that fails to meet a profile audit standard established by the Administrative Director (AD) of the DWC will be given a full compliance audit (FCA). Any audit subject that fails to meet or exceed the FCA performance standard will be audited again within two years. Targeted PARs or FCAs may also be conducted at any time based on information indicating that an insurer, self-insured employer, or third-party administrator is failing to meet its obligations.

To reward good performers, profile audit subjects that meet or exceed the PAR performance standard will not be liable for any penalties but will be required to pay any unpaid compensation. FCA subjects that meet or exceed standards will only be required to pay penalties for unpaid or late paid compensation and any unpaid compensation.

Labor Code Section 129.5(e) is amended to provide for civil penalties up to \$100,000 if an employer, insurer, or third-party administrator has knowingly committed or (rather than "and") has performed with sufficient frequency to indicate a general business-practice act discharging or administering its obligations in specified improper manners. Failure to meet the FCA performance standards in two consecutive FCAs will be rebuttably presumed to be engaging in a general business practice of discharging and administering compensation obligations in an improper manner.

Review of the civil penalties assessed will be obtained by written request for a hearing before the WCAB rather than by application for a writ of mandate in the Superior Court. Judicial review of the Board's findings and order will be as provided in Sections 5950 et seq.

Penalties collected under Section 129.5 and unclaimed assessments for unpaid compensation under Section 129 are credited to the Workers' Compensation Administration Revolving Fund (WCARF).

Audit and Enforcement Unit Data

The following various charts and graphics depict workload data from 2000 through 2005. As noted on the charts, data before 2003 cannot be directly compared with similar data in 2003 and after because of the significant changes in the program effective January 1, 2003.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Overview of Audit Methodology

Selection of Audit Subjects

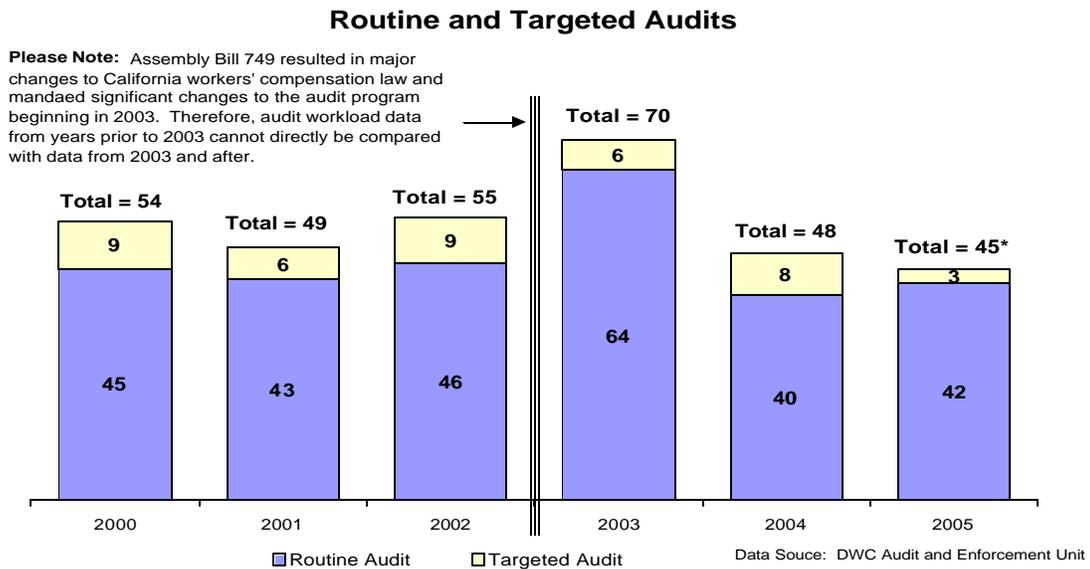
Audit subjects include insurers, self-insured employers, and third-party administrators selected randomly.

The bases for the targeting of audit subjects by the Audit Unit are specified in 8 California Code of Regulations Section 10106.1(c), effective January 1, 2003:

- Complaints regarding claims handling received by the DWC.
- Failure to meet or exceed FCA Performance Standards.
- High numbers of penalties awarded pursuant to Labor Code Section 5814.
- Information received from the Workers' Compensation Information System (WCIS).
- Failure to provide a claim file for a PAR.
- Failure to pay or appeal a Notice of Compensation Due ordered by the Audit Unit.

Routine and Targeted Audits

The following chart shows the number of routine audits and target audits and the total number of audits conducted each year.



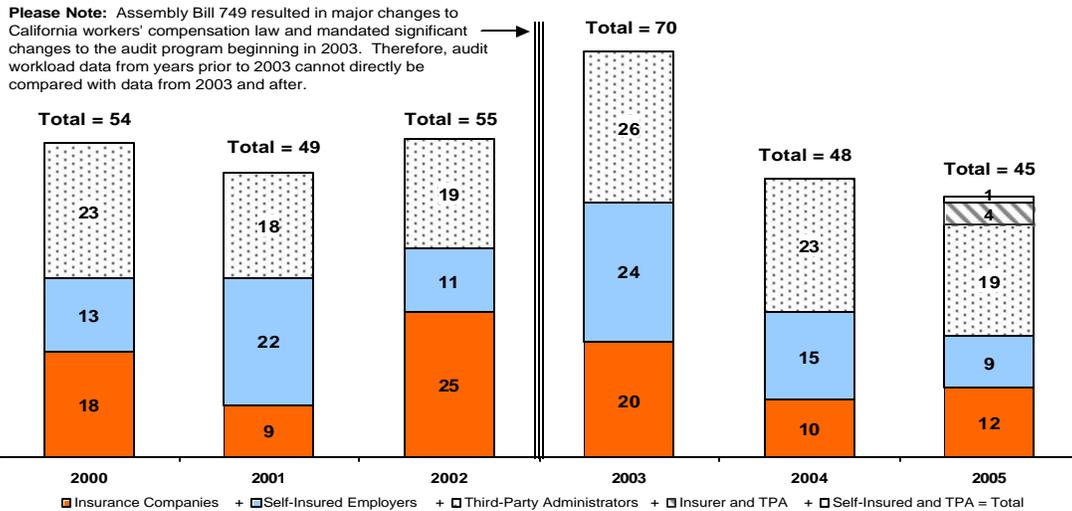
* Note: An additional target audit was conducted based on a return agreement in a previous stipulation of civil penalty in year 2000

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Audits by Type of Audit Subject

The following graph depicts the total number of audit subjects each year with a breakdown by whether the subject is an insurer, a self-insured employer, or a third-party administrator.

DWC Audits by Type of Audit Subject



Data Source: DWC Audit and Enforcement

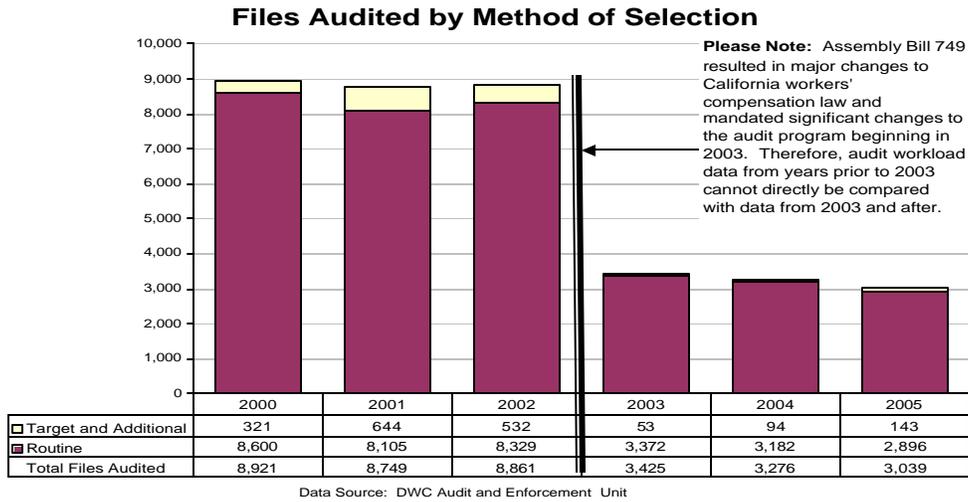
Selection of Files to be Audited

The majority of claim files are selected for audit on a random basis, with the number of indemnity and denied cases being selected based on the numbers of claims in each of those populations of the audit subject:

- Targeted files are selected because they have attributes that the audits are focusing on.
- Additional files include claims chosen based on criteria relevant to a target audit but for which no specific complaints had been received.
- The number of claims audited is based upon the total number of claims at the adjusting location and the number of complaints received by the DWC related to claims-handling practices. Types of claims include indemnity, medical only, denied, complaint and additional.

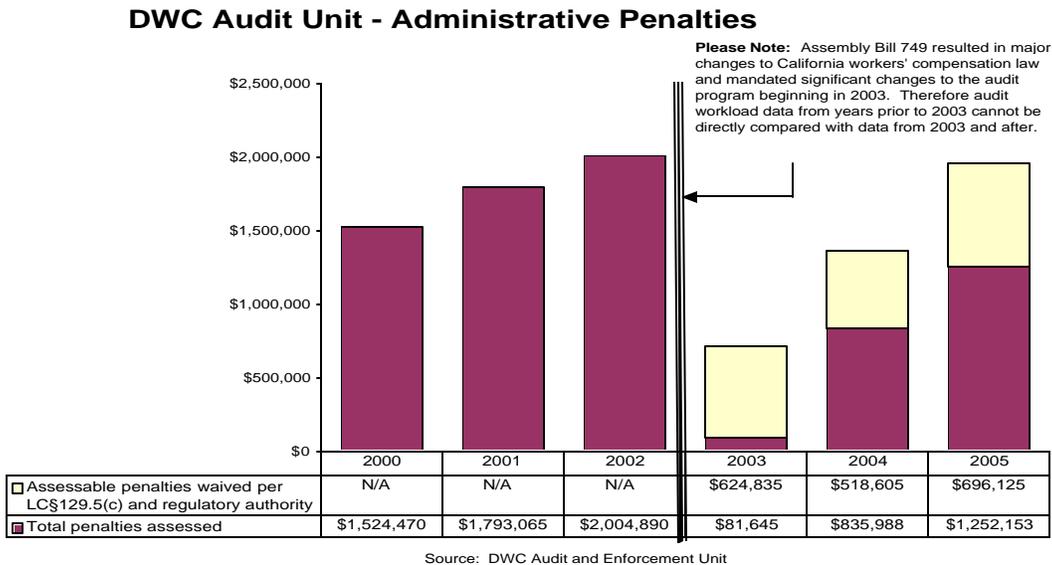
SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

The following chart shows the total number of files audited each year, broken down by the method used to select them.



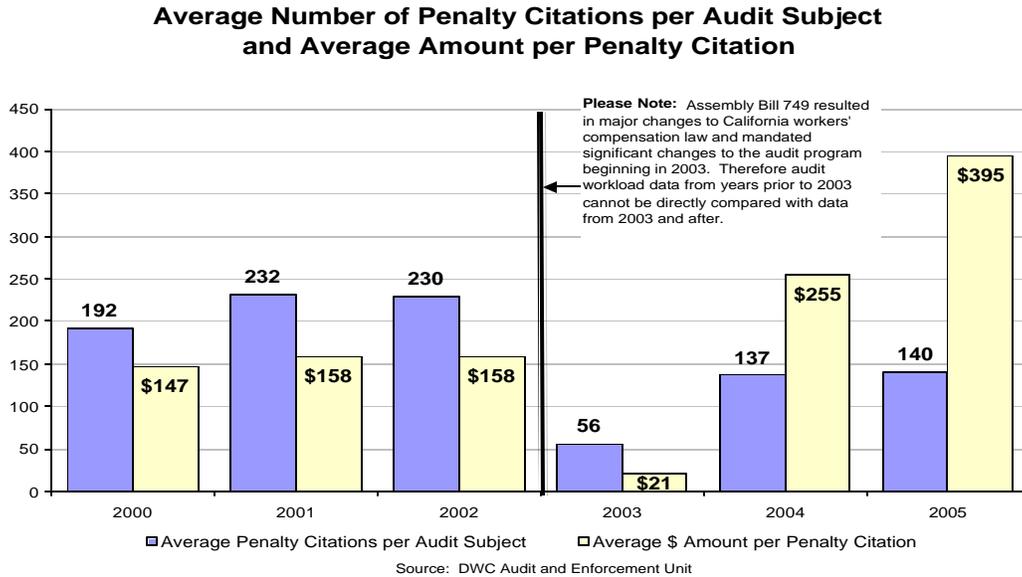
Audit Findings

As shown in the following chart, the administrative penalties assessed have changed significantly since the reform legislation changes to the Audit and Enforcement Program beginning in 2003.



SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

The following chart shows the average number of penalty citations per audit subject each year and the average dollar amount per penalty citation.

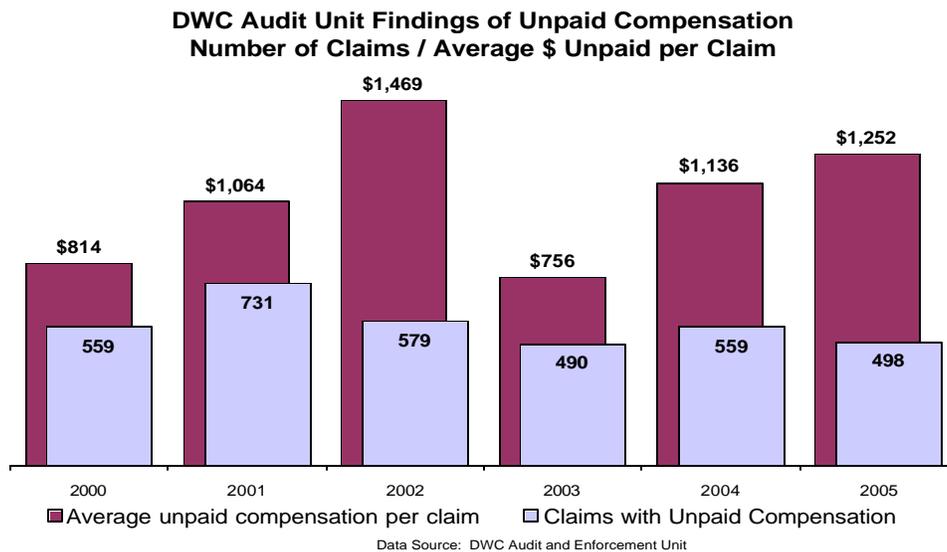


Unpaid Compensation Due To Employees

Audits identify claim files where injured workers were owed unpaid compensation.

The administrator is required to pay these employees within 15 days after receipt of a notice advising the administrator of the amount due, unless a written request for a conference is filed within 7 days of receipt of the audit report. When employees due unpaid compensation cannot be located, the unpaid compensation is payable by the administrator to the WCARF. In these instances, application by an employee can be made to the DWC for payment of monies deposited by administrators into this fund.

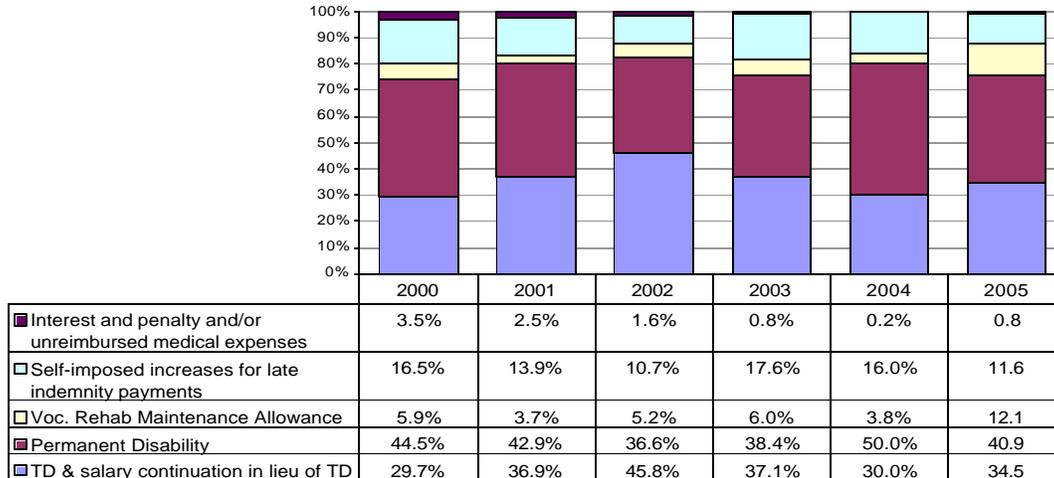
The following chart depicts the average number of claims per audit where unpaid compensation was found and the average dollar amount of compensation due per claim.



SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

The chart below shows unpaid compensation each year, broken down by percentage of the specific type of compensation that was unpaid.

**Unpaid Compensation in Audited Files
Type by Percentage of Total**



Data Source: DWC Audit and Enforcement Unit

Frequency of Violations

A statewide frequency of the five key areas under review for violations used in determining the PAR and FCA performance standards was calculated after combining the individual audit findings. The frequency noted in each area is the ratio of files in which there is an assessment for a specific type of violation to the total number of randomly selected files in which the possibility of that type of violation exists.

Unpaid Indemnity

Of the randomly selected audited claims in which indemnity was accrued and payable, the percentage for assessable penalties for unpaid indemnity is:

- 2004 37 Audits passing the PAR standard: 12.02%
- 2004 5 Audits passing the FCA standard: 24.39%
- 2004 6 Audits failing all standards: 32.36%
- 2005 35 Audits passing the PAR standard: 12.83%
- 2005 8 Audits passing the FCA standard: 19.20%
- 2005 2 Audit failing all standards: 32.60%

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Late First Payment of Temporary Disability or First Salary Continuation Notice When Salary Continuation is Paid in Lieu of Temporary Disability

Of the randomly selected audited claims with TD payments or first notice of salary continuation, the following percentage for assessable penalties for late-paid first payment of TD or late first notice of salary continuation is:

- 2004 37 Audits passing the PAR standard: 24.59%
- 2004 5 Audits passing the FCA standard: 39.51%
- 2004 6 Audits failing all standards: 53.68%

- 2005 35 Audits passing the PAR standard: 26.31%
- 2005 8 Audits passing the FCA standard: 32.36%
- 2005 2 Audit failing all standards: 46.99%

Late First Payment of Permanent Disability, Vocational Rehabilitation Maintenance Allowance, and Death Benefits

Of the randomly selected audited claims with PD, vocational rehabilitation maintenance allowance and death benefits payments, the following percentage for assessable penalties for late-paid first payment of PD, vocational-rehabilitation maintenance allowance, and death benefits is:

- 2004 37 Audits passing the PAR standard: 12.03%
- 2004 5 Audits passing the FCA standard: 32.10%
- 2004 6 Audits failing all standards: 40.80%

- 2005 35 Audits passing the PAR standard: 15.83%
- 2005 8 Audits passing the FCA standard: 23.88%
- 2005 2 Audit failing all standards: 26.15%

Late Subsequent Indemnity Payments

Of the randomly selected audited claims with subsequent indemnity payments, the following percentage for assessable penalties for late subsequent indemnity payments is:

- 2004 37 Audits passing the PAR standard: 20.39%
- 2004 5 Audits passing the FCA standard: 45.27%
- 2004 6 Audits failing all standards: 26.10%

- 2005 35 Audits passing the PAR standard: 21.82%
- 2005 8 Audits passing the FCA standard: 35.84%
- 2005 2 Audit failing all standards: 27.42%

Failure or Late Provision of Agreed Medical Evaluator/Qualified Medical Evaluator Notices and Notices of Potential Eligibility for Vocational Rehabilitation

Of the randomly selected audited claims with requirement to issue the agreed medical evaluator/qualified medical evaluator (AME/QME) notice and/or the notice of potential eligibility for vocational rehabilitation, the following percentage for assessable penalties for failure or late issuance is:

- 2004 37 Audits passing the PAR standard: 24.16%
- 2004 5 Audits passing the FCA standard: 31.39%
- 2004 6 Audits failing all standards: 57.08%

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

- 2003 35 Audits passing the PAR standard: 27.78%
- 2003 8 Audits passing the FCA standard: 39.87%
- 2003 2 Audit failing all standards: 20.00%

Performance Ratings

Each audit subject's performance rating is calculated following a review of a sample of randomly selected indemnity claims and is a composite score based on performance in specific key areas.

Ratings are based on the frequency and severity of violations, with a weighting factor emphasizing the gravity of violations involving the failure-to-pay compensation. The higher the rating of an audit subject the worse the performance.

Ratings are calculated based on the frequency of claims with:

- Unpaid compensation and the amounts of unpaid compensation found in the sample of randomly selected undisputed claims.
- Violations involving late first TD payments or first notices of salary continuation.
- Violations involving late first payments of PD, vocational rehabilitation maintenance allowance, and death benefits.
- Violations involving late subsequent (scheduled) indemnity payments.
- Violations involving the failure to timely issue Notices of Potential Eligibility for Vocational Rehabilitation and Notices Advising Injured Workers of their Rights for Qualified Medical Examinations to determine PD.

If the audit subject's performance rating meets or exceeds (i.e., is lower than) the worst 20 percent of performance ratings for all final audit reports issued over the three calendar years before the year preceding the current audit, the Audit Unit will issue Notices of Compensation Due pursuant to Section 10110 but will assess no administrative penalties for violations found in that audit.

If the audit subject's performance rating is higher than the worst 20 percent of performance ratings as calculated based on all final audit findings as published in the Annual DWC Audit Reports over the three calendar years before the year preceding the current audit, the Audit Unit will conduct an additional audit by randomly selecting and auditing an additional sample of indemnity claims.

Specific findings for all audit subjects may be found in the DWC Audit Unit Annual Reports, available at <http://www.dir.ca.gov/dwc/audit.html>.

For further information...

-  DWC Annual Audit Reports may be accessed at <http://www.dir.ca.gov/dwc/audit.html>
-  CHSWC Report on the Division of Workers' Compensation Audit Function (1998) - available at www.dir.ca.gov/chswc

Disability Evaluation Unit

The DWC Disability Evaluation Unit (DEU) determines PD ratings by assessing physical and mental impairments in accordance with the Permanent Disability Rating Manual. The ratings are used by workers' compensation judges, injured workers, and insurance claims administrators to determine PD benefits.

The DEU prepares three types of ratings:

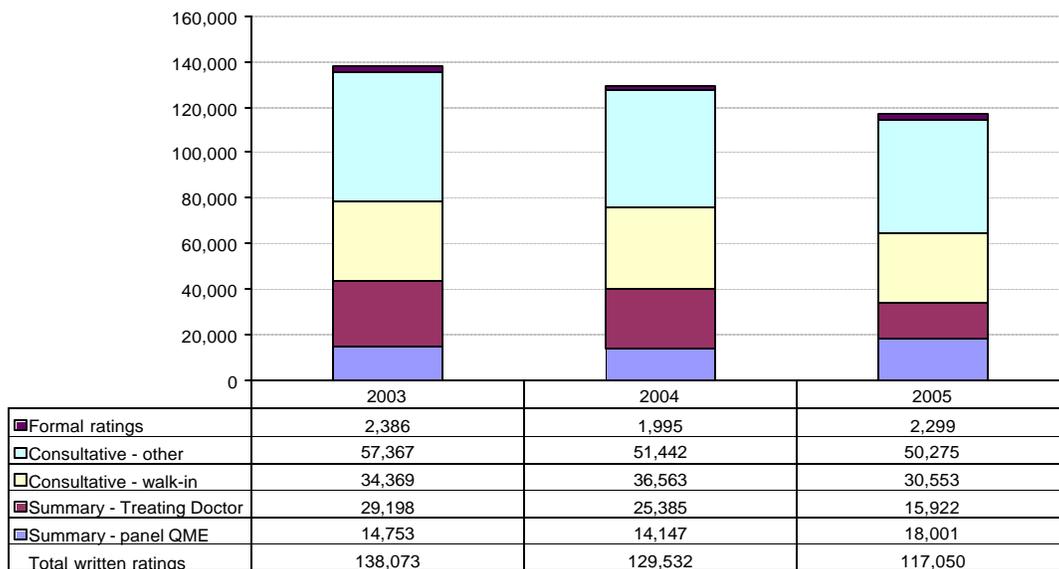
- (1) Formal, done at the request of a workers' compensation judge;
- (2) Consultative, done at the request of an attorney or DWC information and assistance officer; and
- (3) Summary, done at the request of a claims administrator or injured worker.

Summary ratings are done only on non-litigated cases, whereas formal consultative ratings are done only on litigated cases.

The rating is a percentage that estimates how much a job injury permanently limits the kinds of work the injured employee can do. It is based on the employee's medical condition, date of injury, age when injured, occupation when injured, how much of the disability is caused by the employee's job, and his or her diminished future earning capacity. It determines the number of weeks that the injured employee is entitled to PD benefits.

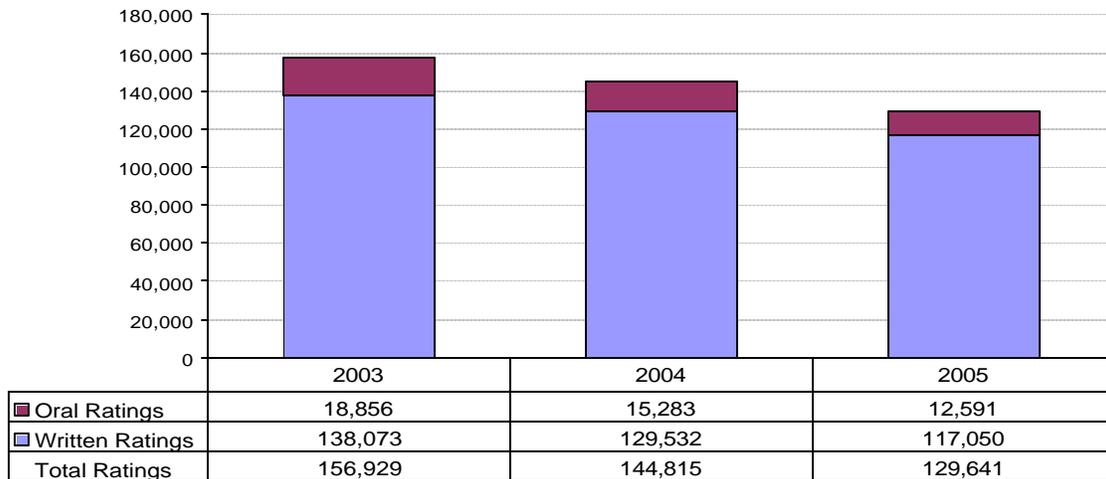
The following charts depict the DEU workload during 2003, 2004, and 2005. The first chart shows the written ratings produced each year by type. The second chart illustrates the total number of written and oral ratings each year.

DEU Written Ratings 2003, 2004, and 2005



Data Source: DWC Disability Evaluation Unit

**DEU Ratings by Type
2003, 2004, and 2005**



Source: DWC Disability Evaluation Unit

Anti-Fraud Activities

Background

During the past decade, there has been a dedicated and rapidly growing campaign in the State against workers' compensation fraud. This report on the nature and results of that campaign is based primarily on information obtained from the CDI Fraud Division, as well as applicable Insurance Code and Labor Code sections and data published in periodic Bulletin[s] of the CWCI.

Suspected Fraudulent Claims

Suspected Fraudulent Claims (SFC) are reports of suspected fraudulent activities received by CDI from various sources, including insurance carriers, informants, witnesses, law-enforcement agencies, fraud investigators, and the public. The number of suspected fraudulent claims represents only a small portion that has been reported by the insurers and does not necessarily reflect the whole picture of fraud since many fraudulent activities have not been identified or investigated.

According to the CDI Fraud Division, the number of suspected fraudulent claims increased near the end of fiscal year 2003-04. Several reasons for this increase include:

- The extensive efforts to provided training to the insurance claim adjusters and the Special Investigative Unit (SIU) personnel by the Fraud Division and District Attorneys.
- Changing submission of SFCs by filling out FD-1 Form electronically through the Internet.
- The Department has promulgated new regulations to help insurance carriers step up their anti-fraud efforts and become more effective in identifying, investigating, and reporting workers' compensation fraud. A work plan to increase the number of audits performed by the Fraud Division SIU Compliance Unit has been established and continues with an aggressive outreach plan to educate the public on anti-fraud efforts and how to identify and report fraud. This has ensured a more consistent approach to the oversight and monitoring of the SIU functions with the primary insurers as well as the subsidiary companies
- Finally, CDI is strengthening its working relationship with the WCIRB to support the Department's anti-fraud efforts

For fiscal year 2005-06, the total number of SFCs is reported at 8,489.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Workers' Compensation Fraud Suspect Arrests

After a fraud referral, an investigation must take place before any warrants are issued or arrests are made. The time for investigation ranges from a few months to a few years depending on the complexity of the caseload. For this reason, the number of arrests does not necessarily correspond to the number of referrals in a particular year.

Fiscal Year	Suspected Fraudulent Claims	Fraud Suspect Arrests
1992-93	8,342	125
1993-94	7,284	195
1994-95	4,004	344
1995-96	3,947	406
1996-97	3,281	456
1997-98	4,331	424
1998-99	3,363	456
1999-00	3,362	478
2000-01	3,548	382
2001-02	2,968	290
2002-03	3,544	369
2003-04	5,122	481
2004-05	6,492	439

Source: California Department of Insurance, Fraud Division

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Workers' Compensation Fraud Suspect Convictions

Based on information from the Fraud Division and CWCI [Bulletin\[s\]](#), the number of workers' compensation fraud suspects *convicted* annually is as follows, with many cases still pending in court.

Year	Fraud Suspect Prosecutions	Fraud Suspect Convictions
1993-94 Fiscal Year	363	181
1994-95 Fiscal Year	422	198
1995-96 Fiscal Year	346	248
1996-97 Fiscal Year	567	331
1997-98 Fiscal Year	637	375
1998-99 Fiscal Year	869	384
1999-2000 Fiscal Year	980	390
2000-01 Fiscal Year	822	367
2001-02 Fiscal Year	659	263
2002-03 Fiscal Year	739	293
2003-04 Fiscal Year	1,003	426
2004-05 Fiscal Year	970	423

Source: California Department of Insurance, Fraud Division and California Workers' Compensation Institute

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Workers' Compensation Fraud Investigations

Types of Workers' Compensation Fraud Investigations

The following table indicates the number and types of investigations opened and carried for fiscal years 2001-02, 2002-03, 2003-04 and 2004-05 as reported by District Attorneys. Applicant fraud appears to be the area generating the most cases followed by premium fraud and medical-provider fraud.

Type of Investigation	Fiscal Year 2001-02 Cases Number / Percent		Fiscal Year 2002-03 Cases Number / Percent		Fiscal Year 2003-04 Cases Number / Percent		Fiscal Year 2004-05 Cases Number / Percent	
Applicant	1,293	79.37%	1,263	72.63%	1,177	60.14%	1,478	69.2%
Premium	159	9.76%	207	11.90%	242	12.36%	172	8.1%
Fraud Rings	1	0.06%	7	0.40%	39	1.99%	4	0.19%
Capping	6	0.37%	5	0.28%	5	0.25%	3	0.14%
Medical Provider	98	6%	97	5.60%	97	4.95%	105	4.91%
Insider	8	0.49%	6	0.34%	14	0.71%	6	0.28%
Other	64	3.93%	93	5.3%	56	2.86%	43	2.01%
Uninsured	N/A		61	3.5%	327	16.71%	325	15.22%
TOTAL	1,629		1,739		1,957		2,136	

Source: California Department of Insurance, Fraud Division

Geographically, the great majority of suspected fraud cases in 2003 and 2004 came from Los Angeles County (30 percent) followed by Orange County (8 percent) and then San Diego County (8 percent).

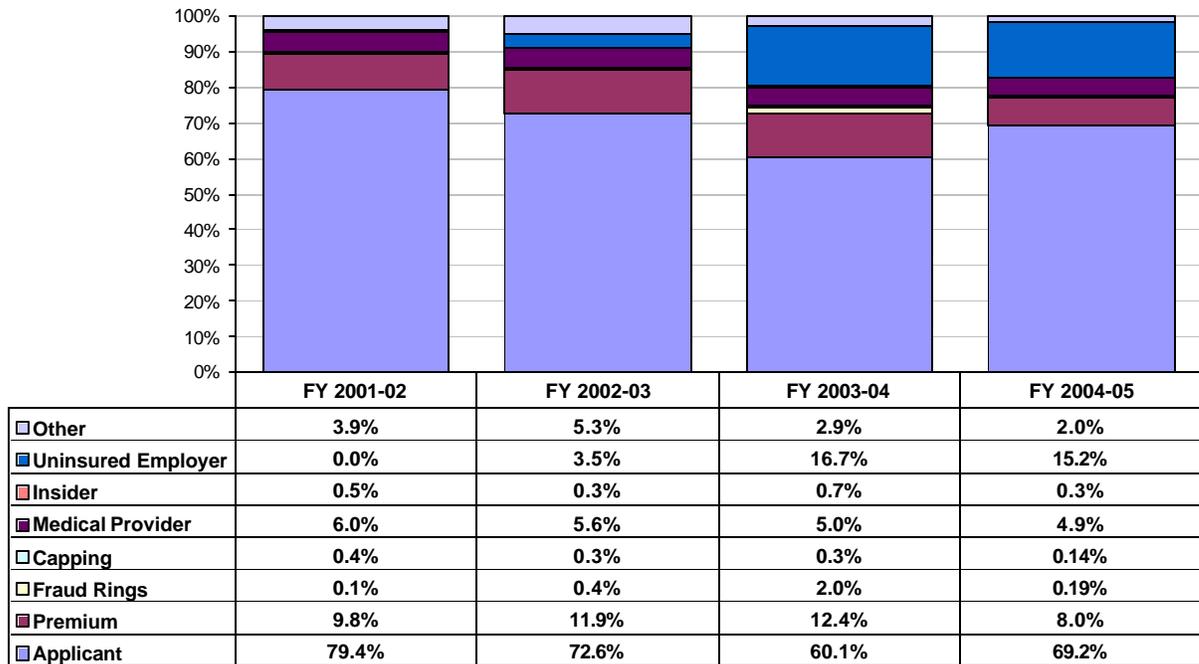
Trends in Workers' Compensation Fraud Investigations

The chart below illustrates the changing focus of workers' compensation investigations over the past three fiscal years, by showing the what types of investigations comprise what percentage of all the investigations each year. For example, investigations of applicants were nearly 80 percent of all investigations during 2001-02; in other words, eight out of ten of all investigations were directed at applicants.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

As seen in the chart below, the focus of the investigations has been changing. Applicant fraud investigations have dropped from nearly 80 percent of the total in 2001-02 to about 70 percent of the total number of investigations in 2004-05. At the same time, there has been an increase in the percentage of investigations of uninsured employers and fraud rings, while the percentage of medical provider fraud investigation has dropped slightly.

Type of Fraud Investigations by Percentage of Total



Data Source: California Department of Insurance, Fraud Division

Carve-outs: Alternative Workers' Compensation Systems

A provision of the workers' compensation reform legislation in 1993, implemented through Labor Code Section 3201.5, allowed construction contractors and unions, via the collective bargaining process, to establish alternative workers' compensation programs, also known as carve-outs.

CHSWC is monitoring the carve-out program, which is administered by the DWC.

CHSWC Study of Carve-Outs

CHSWC engaged in a study to identify the various methods of alternative dispute resolution that are being employed in California carve-outs and to begin the process of assessing their efficiency, effectiveness and compliance with legal requirements.

Since carve-out programs have operated only since the mid-1990s, the data collected are preliminary. The study team found indications that neither the most optimistic predictions about the effects of carve-outs on increased safety, lower dispute rates, far lower dispute costs and significantly more rapid return to work nor the most pessimistic predictions about the effect of carve-outs on reduced benefits and access to representation have occurred.

For further information...



How to Create a Workers' Compensation Carve-out in California: Practical Advice for Unions and Employers." CHSWC (2006). Available at www.dir.ca.gov/CHSWC/chswc.html.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Impact of Senate Bill 228

SB 228 adds Labor Code Section 3201.7, establishing the creation of a new carve-out program for any unionized industry that meets the requirements. This is in addition to the existing carve-out in the construction industry already covered in current law by Labor Code Section 3201.5.

Only the union may initiate the carve-out process by petitioning the AD. The AD will review the petition according to the statutory requirements and issue a letter allowing each employer and labor representative a one-year window for negotiations. The parties may jointly request a one-year extension to negotiate the labor-management agreement.

In order to be considered, the carve-out must meet several requirements including:

- The union has petitioned the AD as the first step in the process.
- A labor-management agreement has been negotiated separate and apart from any collective-bargaining agreement covering affected employees.
- The labor-management agreement has been negotiated in accordance with the authorization of the AD between an employer or groups of employers and a union that is the recognized or certified as the exclusive bargaining representative that establishes any of the following:
 - An alternative dispute resolution system governing disputes between employees and employers or their insurers that supplements or replaces all or part of those dispute resolution processes contained in this division, including, but not limited to, mediation and arbitration. Any system of arbitration shall provide that the decision of the arbiter or board of arbitration is subject to review by the WCAB in the same manner as provided for reconsideration of a final order, decision, or award made and filed by a workers' compensation administrative law judge.
 - The use of an agreed list of providers of medical treatment that may be the exclusive source of all medical treatment provided under this division.
 - The use of an agreed, limited list of QMEs and agreed medical evaluators (AMEs) that may be the exclusive source of QMEs and AMEs under this division.
 - A joint labor-management safety committee.
 - A light-duty, modified job or RTW program.
 - A vocational rehabilitation or retraining program utilizing an agreed list of providers of rehabilitation services that may be the exclusive source of providers of rehabilitation services under this division.
- The minimum annual employer premium for the carve-out program for employers with 50 employees or more is \$50,000, and the minimum group premium is \$500,000.
- Any agreement must include right of counsel throughout the alternative dispute resolution process.

Impact of Senate Bill 899

Construction industry carve-outs were amended per Labor Code Section 3201.5 and carve-outs in other industries were amended per Labor Code Section 3201.7 to permit the parties to negotiate any aspect of the delivery of medical benefits and the delivery of disability compensation to employees of the employer or group of employers who are eligible for group health benefits and non-occupational disability benefits through their employer.

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

Carve-Out Participation

As shown in the following table, participation in the carve-out program has grown, with significant increases in the number of employees, work hours and amount of payroll.

Carve Out Participation	1995	1996	1997	1998	1999	2000*	2001*	2002	2003*	2004*	2005*
Employers	242	277	550	683	442	260	143	512	316	462	739
Work Hours	6.9 million	11.6 million	10.4 million	18.5 million	24.8 million	16.9 million	7.9 million	29.4 million	22.9 million	25.4 million	24.5 million
Employees (full-time equivalent)	3,450	5,822	5,186	9,250	12,395	8,448	3,949	14,691	11,449	12,700	12,254
Payroll	\$157.6 million	\$272.4 million	\$242.6 million	\$414.5 million	\$585.1 million	\$442.6 million	\$201.9 million	\$634.2 million	\$623.6 million	\$1.2 billion	\$966.0 million

* Please note that data is incomplete

Source: DWC

A listing of employers and unions in carve-out agreements follows.

Status of Carve-out Agreements as of May 2005

The following charts show the current status of carve-out agreements pursuant to Labor Code Sections 3201.5 and 3201.7, as reported by the DWC.

**Construction Carve-out Participants as of May 2, 2006
Labor Code Section 3201.5**

*Key: 1 = one employer, one union; 2 = one union, multi employer; 3 = project labor agreement

No.	Union	Company	Exp. Date
1. (3)	CA Building & Construction Trades Council	Metropolitan Water Dist. So. Ca-Diamond Valley Lake	11/07/06
2. (2)	Internat'l Brotherhood of Electrical Workers IBEW	NECA--National Electrical Contractors Assoc.	8/14/07
3. (2)	So. Ca. Dist. of Carpenters & 19 local unions	6 multi-employer groups—1000 contractors.	8/14/07
4. (2)	So. Ca. Pipe Trades Council 16	Multi employer—Plumbing & Piping Industry Coun.	8/24/07
5. (1)	Steamfitters Loc. 250	Cherne—two projects completed in 1996	Complete
6. (1)	Intern'l Union of Petroleum & Industrial Wkrs	TIMEC Co., Inc./TIMEC So. CA., Inc.	7/31/07
7. (3)	Contra Costa Bldg & Const. Trades Council	Contra Costa Water District - Los Vaqueros	Complete
8. (2)	So. CA Dist. Council of Laborers	Assoc. Gen'l Cont'rs of CA, Bldg. Industry Assoc. -So. CA., So CA Contrs' Assoc., Eng. Contrs' Assoc.	7/31/08

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

No.	Union	Company	Exp. Date
9. (3)	Ca. Bldg. & Construction Trades Council	Metropolitan Water Dist. So. Ca. Inland Feeder-Parsons	Ended 12/31/02
10. (3)	Bldg. & Construction Trades Council of Alameda County	Parsons Constructors, Inc. National Ignition Facility—Lawrence Livermore	9/23/06
11. (2)	District Council of Painters	Los Angeles Painting & Decorating Contrs Assoc.	10/29/06
12. (1)	Plumbing & Pipefitting Local 342	Cherne Contracting - Chevron Base Oil 2000 project	Complete
13. (3)	LA Bldg & Const. Trades Coun. AFL-CIO	Cherne Contracting —ARCO	Complete
14. (2)	Operating Engineers Loc. 12	So. California Contractors' Assoc.	4/1/08
15. (2)	Sheet Metal International Union	Sheet Metal-A/C Contractors National Assoc	4/1/08
16. (3)	Bldg & Construction Trades Council San Diego	San Diego Cny Water Authority Emer. Storage Project	2/2006
17. (3)	LA County Bldg. & Const.Trades Council	Cherne Contracting – Equilon Refinery – Wilmington	3/1/07
18. (3)	Plumbers & Steamfitters	Cherne Contracting – Chevron Refinery Richmond	7/1/05
19. (3)	Plumbers & Steamfitters	Cherne Contracting – Tesoro Refinery – Martinez	7/1/05
20. (3)	LA/Orange Counties Bldg. & Const. Trade Coun	Cherne Contracting – Chevron Refinery – El Segundo	7/26/05
21. (2)	District Council of Iron Wkrs- State of CA and Vicinity	California Ironworker Employers Council	2/25/09
22. (2)	Sheet Metal Wkr Intern'l Assoc #105	Sheet Metal & A/C Labor Management Safety Oversight Committee (LMSOC)	4/17/09
23. (2)	United Union of Roofers, Waterproofers and Allied workers, Local 36 and 220	Southern California Union Roofing Contractors Association	07/31/08
24. (2)	United Union of Roofers, Waterproofers and Allied Workers, Locals 40, 81 & 95	Associated Roofing Contractors of the Bay Area Counties	7/31/06
25. (2)	United Assoc.-Journeyman & Apprentices--Plumbers & Pipefitters, Local #447	No.CA Mechanical Contractors Assoc & Assoc. Plumbing & Mechanical Contractors of Sacto Inc.	11/7/06
26. (2)	Operatives Plasterers and Cement Masons International Association, Local 500 & 600	So. California Contractors Association, Inc.	4/1/05

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

No.	Union	Company	Exp. Date
27. (1)	International Unions of Public & Industrial Workers	Irwin Industries, Inc.	3/23/07
28. (2)	PIPE Trades Dist. Council No. 36	Mechanical Contractors Council of Central CA	4/14/07
29. (2)	No. CA Carpenters Reg'l Council/	Basic Crafts Worker' Compensation Benefits Trust	8/30/07
30. (2)	No. CA District Council of Laborers	Basic Crafts Worker' Compensation Benefits Trust	8/30/07
31. (2)	Operating Engineers Local 3	Basic Crafts Worker' Compensation Benefits Trust	8/30/07
32. (1)	Industrial, Professional & Technical Workers	Irish Construction	12/20/07
33. (3)	Building Trades Council of Los Angeles-Orange County	Los Angeles Community College District Prop A & AA Facilities Project	5/6/08

**Non Construction Industry Carve-Out Participants as of September 23, 2005
(Labor Code Section 3201.7)**

No.	Union	Company	Permission to Negotiate Date Expires	Application for Recognition of Agreement	Agreement Recognition Letter Date
1.	United Food & Commercial Workers Union Local 324	Super A Foods-2 locations 76 employees	09/01/04-09/01/05		
2.	United Food & Commercial Workers Union Local 1167	Super A Foods – Meat Department 8 employees	09/01/04-09/01/05		
3.	Teamsters Cal. State Council-Cannery & Food Processing Unions, IBT, AFL-CIO	Cal. Processors, Inc. Multi-Employer Bargaining Representative	7/06/04-7/05/05		
4.	United Food & Commercial Workers Union Local 770	Super A Foods – 10 locations - ~ 283 members	09/01/04-09/01/05		
5.	United Food & Commercial Workers Union Local 1036	Super A Foods - All employees, except those engaged in janitorial work or covered under a CBA w/Culinary Workers and	09/01/04-09/01/05		

SELECTED INDICATORS IN WORKERS' COMPENSATION: A REPORT CARD FOR CALIFORNIANS

		demonstrators			
6.	Operating Engineers- Loc 3 Non-Construction	Basic Crafts Workers' Compensation Benefits Trust Fund	12/09/04- 12/09/05	02/15/05	02/28/05
7.	Laborers - Non-Construction	Basic Crafts Workers' Compensation Benefits Trust Fund	12/09/04- 12/09/05	02/15/05	02/28/05
8.	Carpenters- Non-Construction	Basic Crafts Workers' Compensation Benefits Trust Fund	12/09/04- 12/09/05	02/15/05	02/28/05
9.	United Food & Commercial Workers Union Local 588	Mainstay Business Solutions	8/11/05- 8/11/06	09/02/05	09/12/05

For further information...

-  The latest information on carve-outs may be obtained at www.dir.ca.gov. Select "workers' compensation" then "Division of Workers' Compensation," then "Construction Industry Carve-Out Programs" (under "DWC/WCAB Organization and Offices").
-  CHSWC Report: "Carve-Outs' in Workers' Compensation: An Analysis of Experience in the California Construction Industry" (1999). Available at www.dir.ca.gov/CHSWC/chswc.html.
-  Carve-outs: A Guidebook for Unions and Employers in Workers' Compensation." CHSWC (2004). Available at www.dir.ca.gov/CHSWC/chswc.html.